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UNITED STATES TRADE

Performance in 1985 and Outlook

INCLUDING SPECIAL TOPICS:

U.S. TRADE PERFORMANCE WITH CANADA
GROWING U.S.—JAPAN TRADE IMBALANCE
WHO IS BUYING LDC MANUFACTURES?
INDUSTRIALIZED WEST'S TRADE WITH CENTRALLY-PLANNED ECONOMIES
CHANGING TRENDS IN U.S. PETROLEUM IMPORTS
CONTRIBUTION OF EXPORTS TO U.S. EMPLOYMENT
STATE AND METROPOLITAN EXPORT PROFILES
U.S. INTERNATIONAL COMPETITIVENESS: CONCEPTUAL AND MEASUREMENT PROBLEMS
THE HARMONIZED TRADE DATA SYSTEM
DOLLAR EXCHANGE RATES: PERFORMANCE AND CAVEATS

U.S. DEPARTMENT OF COMMERCE
International Trade Administration

UNITED STATES TRADE

Performance in 1985 and Outlook

PENNSYLVANIA STATE UNIVERSITY
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International Trade Administration

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FOREWORD

The U.S. merchandise trade deficit reached $148.5 billion in 1985. The outlook for 1986 is for a similar large deficit. This third annual report presents a comprehensive analysis of U.S. trade and its role in the world economy. It focuses on trade in merchandise and services and how they fit into the spectrum of international transactions.

The report also describes the links among trade deficits, capital flows and the growing U.S. international debtor position. It concludes that manufactures trade is the primary area in which improvement must occur, and describes the challenge for those trading partners that have become unduly reliant on very large manufactures trade surpluses with the United States.

The forces behind our trade deficits are increasing the pace of restructuring in American industry as various sectors have acted to meet aggressive import competition. American exporters have faced not only the penalties of exchange rate imbalances, but also slower growth in trading partners' economies and difficulties in penetrating closed markets abroad. Painful adjustment has been the result for some industries and their workers.

But, there have been some compensating benefits. Increased exports to the United States have helped to rekindle world economic growth and revitalize world trade. The net inflow of capital represented by the deficit has helped the U.S. economy to grow rapidly without renewed inflation or higher interest rates. Consumers have benefitted from a wide selection of favorably priced imports. Restructured industries are stronger and more vibrant world competitors.

Nevertheless, the United States cannot rely indefinitely on large net inflows of foreign capital, and cannot continue to be the sole "locomotive" of world economic growth. Corrective forces in exchange rate and interest rate changes will narrow or reverse the trade imbalances of recent years. Administration initiatives have already fostered a more viable dollar exchange rate, reduced interest rates, and opened markets abroad.

If we are to maintain an open global trading system, resist protectionism, and continue to enjoy acceptable growth rates, this period of adjustment will require cooperation and coordinated economic policies among the major trading countries.

Bruce Smart

Bruce Smart
Under Secretary for International Trade

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HIGHLIGHTS

The United States in 1985 registered a record merchandise trade deficit of $148.5 billion. The trade deficit should begin to contract during the latter part of 1986, but the 1986 total will probably reach or somewhat exceed that of 1985. The deficit should decline significantly in 1987 but will remain large. Narrowing these deficits without resorting to self-defeating protectionist measures poses a major challenge to the global trading system.

Dollar exchange rate declines since early 1985 should contribute importantly to the expected trade deficit reduction in 1987. While the dollar fall to date has been substantial against many important currencies, the dollar at mid-1986 was still stronger against most currencies—excepting the yen—than it was in mid-1980. The trade deficit-reducing effects of the recent dollar fall may have been delayed by the ability of foreign producers and U.S. distributors to absorb the impact of the exchange rate changes in the short run.

The fundamental cause of the widening U.S. trade deficit has been divergent macroeconomic policies and performance in the United States vis-a-vis its major trading partners. Strong U.S. economic growth prospects and stability relative to other nations have attracted large net financial inflows. In turn these net financial inflows have helped finance a combination of U.S. investment requirements and government budget deficits that has exceeded domestic saving. These inflows have, in fact, fueled further economic growth, but have also contributed directly to the strong dollar.

Dynamic U.S. economic growth and a strong dollar resulting from sustained foreign demand for dollar-denominated assets have been the principal evident causes of the continuing growth in U.S. imports, especially manufactured goods. Imports are close to long term growth trend lines. Exports, on the other hand, have lagged—1985 exports were 3.5 percent below the 1980 total in value and 15 percent below in volume—as foreign industrial economies stagnated, major LDC markets experienced severe external debt problems, and the dollar strengthened. Still, the U.S. economy generated an additional 8 million jobs over the period 1980-85 despite the increase in the trade deficit.

Eliminating existing foreign trade barriers and preventing the erection of new barriers provide important benefits to the United States. But while foreign trade barriers remain a significant impediment to U.S. exports and a very important trade problem, they are not the major cause of the rapid growth in U.S. trade deficits in recent years.

Growing merchandise trade deficits are the visible manifestation of the change of the United States from a net capital exporter to a net capital importer. Reducing U.S. trade deficits while at the same time maintaining strong U.S. economic growth will require narrowing the gap between U.S. saving and U.S. spending for investment and the government deficit as well as macroeconomic policy changes by U.S. trading partners.

Within the merchandise trade account, a deterioration in manufactures trade performance has been the critical element in the growth of U.S. trade deficits. The U.S. manufactures trade balance deteriorated $124 billion over the 1980-85 period, more than the $112 billion slippage in the total merchandise trade balance.

Just as the decline in U.S. trade performance has been primarily in manufactures trade, improved trade and current account performance must be achieved primarily through improved U.S. manufactures trade balances. There is no other potential source of major gains. Oil imports will continue to generate large, though diminished deficits in the near term; agricultural surpluses will likely remain relatively modest; business services will remain a minor factor in U.S. trade balances; net international investment income will likely decline as the U.S. net international debtor position increases.

Because continuing very large manufactures trade deficits cannot be offset by surpluses in other goods and services trade accounts, the United States must—over the longer term—export about the same value of manufactured goods as it imports to achieve a sustainable current account position.

U.S. manufactures trade performance will be improved by many factors. The restructuring of U.S. firms and other actions to improve competitiveness, changes in exchange rates, and other changes and adjustments resulting from the discipline of the international trade and financial systems will cause the United States to achieve approximate longer term cumulative balance in its manufactures trade and to retain a large U.S. manufacturing base. The United States will not become a nation of "hollow corporations" with most manufacturing performed abroad, though changing technology and shifting comparative advantage will certainly alter the makeup of the manufacturing sector of the U.S. economy.

The current global imbalances in trade—the very large U.S. deficits accompanied by very large Japanese and West German and other foreign country surpluses—are not just a U.S. problem. Huge surpluses are no more sustainable than huge deficits. Sustained imbalances ultimately cause significant adjustment problems for both surplus and deficit countries and generate countering forces—both political and economic—that pose serious risks to the global trading system.

Shrinking the huge trade imbalances of recent years may be delayed, but cannot be avoided. The longer these imbalances persist, the more potentially disruptive the adjustment process may be. If inordinately large surpluses and deficits are not narrowed gradually through better coordinated international economic policies, international investors may ultimately force abrupt and potentially disruptive adjustments through the international financial system. Alternatively, protectionist actions could lead to trade wars that would impair and jeopardize a free and open global trading system.

An orderly return to narrower imbalances is in the interests of all concerned, but the adjustment of trade flows may not be without difficulties. The improved U.S. manufactures trade balances that must inevitably occur will cause difficult problems for some foreign economies—Japan and others—that have become unduly reliant on very large, growing manufactures trade and current account surpluses to generate domestic employment and economic growth.

The United States has undertaken a number of initiatives designed to address many of the fundamental causes of the trade deficit. The United States is implementing policies designed to accommodate an orderly decline of the dollar. Legislation to narrow the federal budget deficit is in place. Agreement in principle has been reached with our major industrial country trading partners to more closely coordinate macroeconomic policies and prevent disorderly movements in currency exchange rates. The Administration has developed practical proposals for addressing the LDC debt problem. In addition, the United States has led the movement toward a new round of multilateral trade negotiations designed to improve the international trade environment, and has diligently negotiated bilateral trade arrangements that deter economic instability and preserve basic equity in our trading relationships.

Current trade imbalances are not sustainable indefinitely and changes must ultimately occur, whether facilitated by coordinated trading partner actions or forced by other factors. But an orderly solution to the problem of large trade imbalances that limits risks to the global trading system and maintains world economic growth requires coordinated U.S. and trading partner actions. Coordinated efforts have begun, but much remains to be done.

1

U.S. TRADE IN PERSPECTIVE

Growing International Interdependence

With each passing year, the economic well-being of individual countries is affected more by the growing integration of the world economy—by international trade and investment flows that are increasing faster than total world production. This continuing integration—evidenced by almost uninterrupted growth in flows of goods, services, technology and investment across national borders—has made possible great advances in outputs of goods and services, economic efficiency, and living standards around the world.

But a more integrated world economy stemming from increasing international trade and investment also has produced a growing interdependence that makes individual national economies more and more dependent on and vulnerable to the performance and actions of others. This growing interdependence constrains the ability of individual countries to control their own economic fortunes. It has also increased the obligation of each country to pursue policies that will maintain and improve an environment in which international trade and investment flows can continue to enlarge for the benefit of all.

Because the United States is the world's largest trader and investor, its economic performance and international trade and investment policies affect not only the United States economy, but also are critical to continued global economic expansion. The United States has long been the major supplier to the world of goods and services and new technologies and the largest and most open market for the goods and services of other countries. But in recent years it has played a new role. Expanding U.S. merchandise trade deficits have accounted for much of the economic growth in Japan, Europe and the East Asian NICs (the major Asian newly industrializing countries: South Korea, Taiwan, Hong Kong and Singapore), and added to the trade surpluses necessary for many less developed countries (LDCs) to service their debts.

The rapid increase in U.S. imports and enlarging trade deficits of the last few years have aided growth abroad. Despite severe adjustment problems in some industries, increased imports have benefited the United States in several ways, enriching consumer choices and permitting an investment boom and rapid economic growth and declining inflation rates, concurrent with large government deficits. But some other effects of surging imports—particularly those stemming from a rising tide of manufactured goods imports—have become highly visible and controversial as U.S. trade deficits have reached unprecedented levels, with sales of U.S. industries increasingly affected at home and in foreign markets.

This third annual report reviews the importance of U.S. trade to the United States and to the world economy. The report examines in detail U.S. merchandise trade and business services trade performance in 1985 and the near-term outlook. The relative roles of merchandise (goods) trade, business services trade and investment income in the current account—the measure of the balance on U.S. goods, services, and other international transactions—and the relationship of the current account to capital flows are described. The deterioration in U.S. merchandise trade performance—trade in goods—is identified as the dominant factor in the growing current account deficits of recent years. Within merchandise trade, manufactures trade is shown to be the key factor in growth of U.S. deficits and improved manufactures trade performance as critical

to restoring U.S. trade and current account balances to sustainable levels. At the same time, improvement in the U.S. trade and current account balances is largely dependent on an improved U.S. balance in international capital flows.

CONTINUING WORLD TRADE GROWTH

The volume of world goods (merchandise) trade in 1985 continued its recovery from the brief 1982-1983 dip, but the dollar value decreased by one percent. At about $1.9 trillion, world goods exports in 1985 measured in dollar terms still remain under the peak $2.0 trillion 1980 level (Figure 1.1). Dollar measurements of trade are, however, distorted by fluctuations in the dollar exchange rate. For example, the appreciating dollar of recent years tended to lower the value of the trade of other nations when converted to dollar terms and, hence, to understate trade volume growth. Estimates by the Organization for Economic Cooperation and Development (OECD) indicate that on a volume basis world trade shrank only in 1982, with that decrease more than offset by growth in 1983, followed by further gains of 8.5 percent in 1984 and an additional 3.5 percent in 1985 (Figure 1.2).

Figure 1.1
WORLD MERCHANDISE AND BUSINESS SERVICE EXPORTS, 1979–85

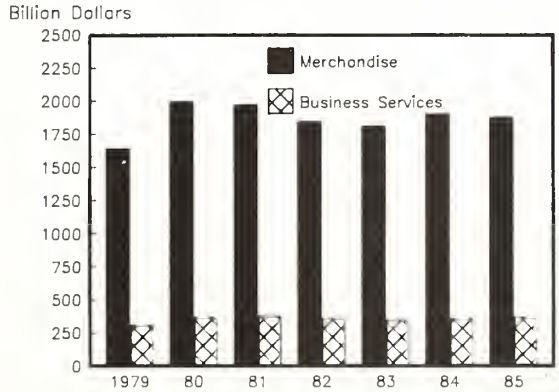
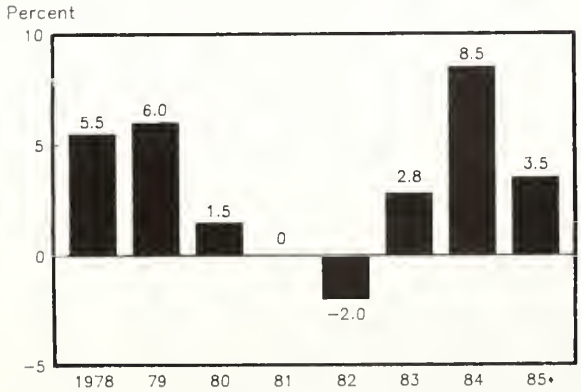


Figure 1.2
CHANGE IN WORLD MERCHANDISE TRADE VOLUME, 1978–85



*OECD estimate

International business services trade—international exchanges of passenger and other travel and transportation services, reinsurance, communications, banking, film rentals, engineering design, copyrights, fees for use of patented technology, and various other tradeable services provided by businesses—also continued its growth in 1985.[1] Measured in dollars, world exports of this broad spectrum of "tradeable" business services reached a high of $383 billion in 1981 and declined slightly in 1982 and 1983 before resuming growth to $360 billion in 1984 (Figure 1.1). Although full-year data are not yet available, growth appears to have continued in 1985, perhaps to about $375 billion, about one-fifth as large as merchandise trade.

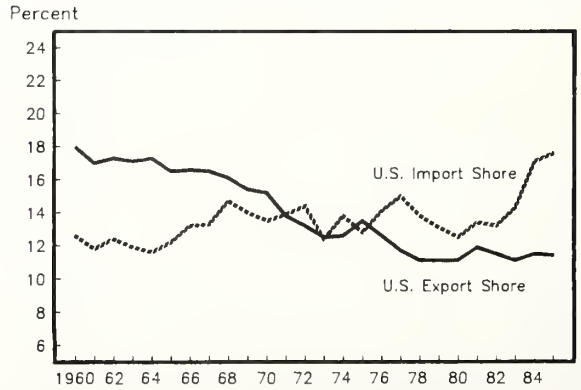
THE U.S. ROLE IN WORLD TRADE

Effects On Foreign Economies

The United States continued in 1985 to be by far the single largest international trader. The U.S. share of total world trade, however,has been declining. Even though a strong U.S. dollar biases upward dollar-denominated U.S. share measurements, the U.S. share has continued to decline in recent years. In 1985, the U.S. share of total world merchandise exports in dollar terms edged down to 11.4 percent, down from 11.5 percent in 1984 and 18.0 percent in 1960 (Figure 1.3). The shares of West Germany and Japan both increased, to 9.8 and 9.4 percent respectively. (See Chapter 10 special topic "U.S. International Competitiveness: Conceptual and Measurement Problems" for a review of the shortcomings of dollar-denominated share measurements).

The dollar value of U.S. exports further declined by 2.2 percent in 1985 to a level still 8.8 percent below the 1981 peak. Measured in local currencies, West German exports increased over the same period about 35

Figure 1.3
U.S. SHARE OF WORLD EXPORTS & IMPORTS 1960–85



[1] As defined in this report, business services exclude "investment income". Investment income, sometimes called factor income, is the receipts and payments of interest, dividends, royalties, loan capital, etc. between multinational companies and their affiliates in other countries and between unaffiliated parties in different countries.

percent and Japan's about 25 percent (Figure 1.4). Nevertheless, the U.S. total in dollar terms is still about 20 percent greater than those of West Germany and Japan, though the gap has been narrowing rapidly (Figure 1.5).

Figure 1.4

CHANGE IN EXPORTS AND IMPORTS OF SELECTED COUNTRIES, 1981–85 (in National Currencies)

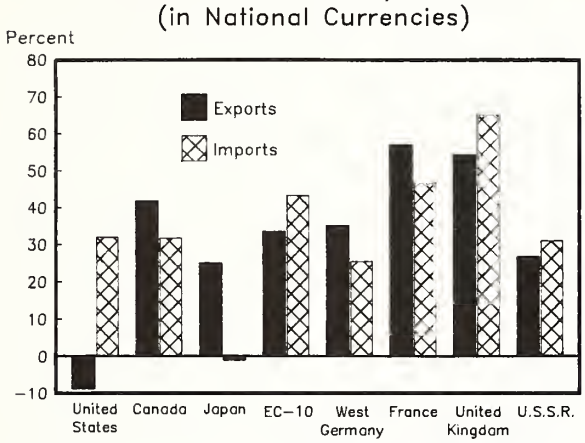
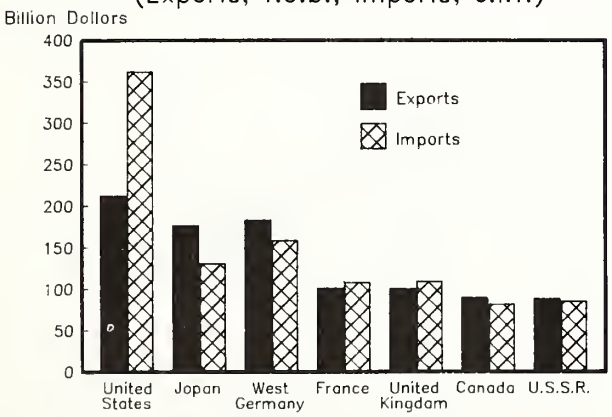


Figure 1.5

MERCHANDISE EXPORTS AND IMPORTS OF LEADING TRADING NATIONS IN 1985 (Exports, f.o.b.; Imports, c.i.f.)



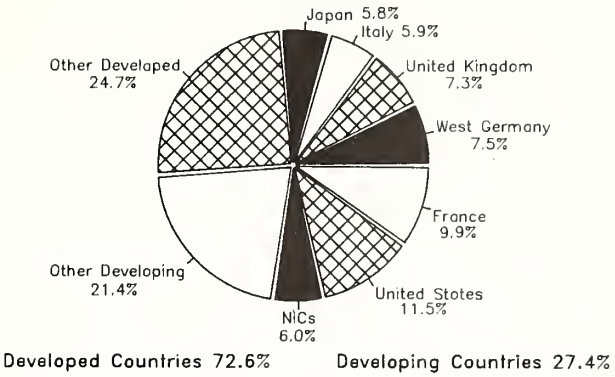
While the decline in the U.S. export share continued in 1985, the U.S. share of world imports continued to increase, reaching 17.6 percent, up from 17.1 percent in 1984 (Figure 1.3). At $375 billion, U.S. imports were 128 percent larger than those of West Germany, still the second ranking world importer, and 177 percent larger than those of third-ranking Japan (Figure 1.5).

The U.S. share of world business services exports—11.5 percent of the 1984 free-world total—is relatively smaller than that of world merchandise exports (Figure 1.6). Not far behind is France, with a 9.9 percent share, with LDCs as a group maintaining a share of 27.4 percent of the world total. 1984 U.S. receipts from business services exports totalled $43.8 billion, and increased modestly in 1985 to just over $45 billion.

Figure 1.6

NATIONAL SHARES OF WORLD BUSINESS SERVICE EXPORTS, 1984

$359.7 Billion



These very large goods and services shares clearly make United States trade important to the world economy. Because U.S. trade is so large, changes in the U.S. economy and resulting changes in U.S. trade flows are of particular global importance. A strong, growing U.S. economy increases U.S. imports, stimulating the economies of foreign suppliers. Weak U.S. economic performance holds down U.S. imports and may slow foreign production growth. U.S. export competitiveness also directly affects foreign competitors, both in their home markets and in third country markets.

A one-sided change in U.S. trade levels has especially important effects. The rapid deterioration in the U.S. trade and current account balances since 1981—principally the result of a stagnation in U.S. goods exports, concurrent with a dramatic expansion in U.S. goods imports—has provided an important economic stimulus to foreign economies. The $96.3 billion U.S. merchandise trade deterioration since 1981 (balance of payments basis) and the accompanying $124.0 billion current account slippage made possible increases in the output and exports of key trading partner countries and improvements in their trade and current account balances. [2]

World economic interdependence and the important linkages between U.S. trade and the economic per-

[2] Both the merchandise balances reported on the Census basis used in this report and the current account balance-of-payments basis cover exports of domestic and foreign merchandise and general imports, including imports for consumption and entries under bond and held under the custody of U.S. Bureau of Customs.

The principal difference between merchandise balances reported on the Census basis used in this report and as reported in the current account of the balance-of-payments is the basis of valuing imports. Imports on the Census basis are valued "c.i.f." and on the current account basis are valued "f.a.s." foreign port. As a result, the Census merchandise import values include international transportation and insurance fees, regardless of whether those services are provided by U.S. or foreign-owned firms. In the current account those services fees are reported separately under transportation and insurance imports, but only if purchased from foreigners.

Other significant differences are inclusion as merchandise in the current account electrical energy and non-monetary gold shifted between foreign official holdings in the Federal Reserve Bank of New York and the private market as merchandise, exclusion of U.S. military agencies' sales from exports and their transactions from imports, and substantial reconciliation adjustments of U.S.-Canadian data, including inland freight charges.

formance of trading partner countries are evident in intercountry comparisons of merchandise trade and current account changes and balances (Figures 1.7 and 1.8).

Figure 1.7

MERCHANDISE TRADE AND CURRENT ACCOUNT BALANCES OF SELECTED COUNTRIES, 1985

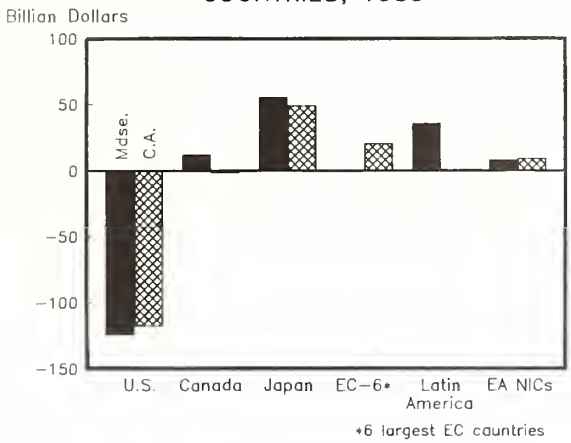
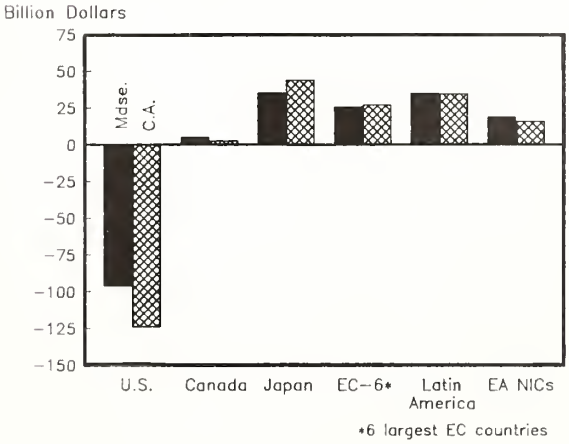


Figure 1.8

CHANGES IN MERCHANDISE TRADE AND CURRENT ACCOUNT BALANCES OF SELECTED COUNTRIES, 1981-85



The large effects of U.S. economic and trade performance on other countries can be illustrated in various ways. The 1985 U.S. merchandise trade deficit of $124.3 billion (balance-of-payments basis) equals the total gross national product of the Netherlands and is larger than the GNPs of all but 20 countries. The cumulative effect of enlarging U.S. trade deficits has been to provide an "engine of growth" for foreign economies. Indeed, worsening in the U.S. merchandise trade balance in 1984 was equivalent to 3.4 percent of total goods exports by other countries; the 1985 deficit enlargement was about 1.5 percent of total goods exports of other countries.

Large U. S. trade deficits have benefited both developed and developing countries. About one-half of 1984 European Community growth and one-fourth of the Community's 1985 growth was directly due to increased exports to the United States.[3] Japan and the Asian NICs as well as many LDC debtor countries also benefited significantly from the growth of U.S. trade deficits in both years (more details are provided in Chapter 4). Indeed, an increasing number of foreign economies are becoming more and more dependent on the U.S. market—the world's largest and most open—as a major target for fulfilling export-led growth strategies.

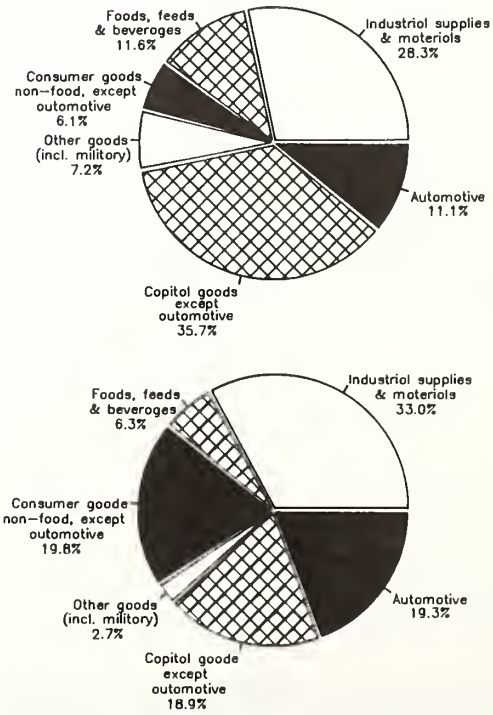
Importance of Trade to the U.S. Economy

U.S. trade is huge and diverse. In 1985 the United States imported goods from virtually all foreign countries. Imports valued at $361 billion were recorded in over 10,000 different classifications ranging from $34.1 billion of crude petroleum and $38 billion of automobiles down to such small items as $16 million of raw cotton. Classified on an "end use" basis, consumer good imports, excluding autos, accounted for $72.5 billion, about 19.5 percent of total; automobiles and automotive products alone were another $68.9 billion, 19.3 percent of total (Figure 1.9). Petroleum, at $51.5 billion, was 14.2 percent of total imports.

Figure 1.9

END-USE COMPOSITION OF U.S. TRADE, 1985

U.S. Exports



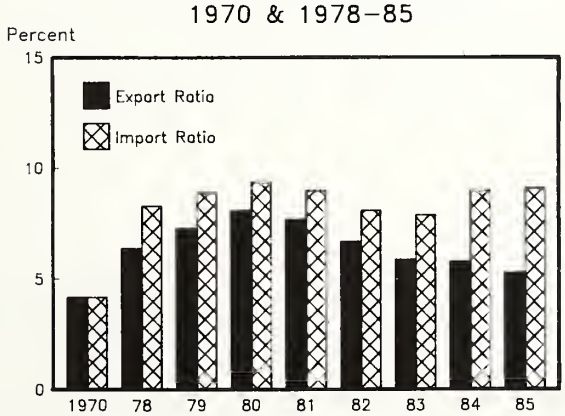
[3] The total stimulus to the foreign economy from increased exports to the United States from one year to the next includes both the direct contribution of export growth to the foreign country's GNP growth and the substantial multiplier effect of that growth over the 1983-85 period. The 1985 contribution does not include the whole multiplier effect produced by the 1984-85 change as that will continue over a longer lag period.

Goods exports of $213.1 billion were recorded in over 4,800 different classifications in 1985 (to match tariff schedules, import classifications are more narrowly defined and more numerous than export classifications). Items exported ranged from $21.9 billion of motor vehicles and parts and $14.9 billion of office machinery and computers, the largest manufactures export items, down to $9 million of wood pulp. On an end-use basis, consumer goods, except autos, are only a minor portion (about 6.1 percent) of U.S. exports (Figure 1.9). U.S. exports are mainly capital goods, industrial supplies, and agricultural goods. As a result of stagnation in U.S. exports, their relative contribution to U.S. economic output has declined somewhat. Nevertheless, in 1985, about one out of every seven dollars of U.S. manufacturing output and roughly 25 percent of U.S. grain production was exported directly or indirectly.

Relative to GNP, U.S. goods exports and imports have fluctuated over recent years, reflecting changes in the mix of factors affecting domestic production, import levels and export performance. Stagnant exports since 1982 have reduced the export portion of GNP, while the ratio of U.S. merchandise imports to GNP has been growing. At 9.1 percent in 1985 the ratio of imports to GNP is still below the 1980 peak level of 9.4 percent (Figure 1.10). Imports in 1980, however, included $82 billion of crude petroleum and petroleum products, compared to $52 billion in 1985. Imports in 1985 contained a much higher portion of manufactured goods than in earlier years.

Figure 1.10

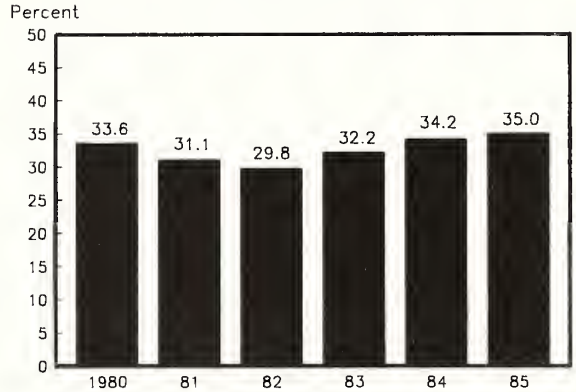
U.S. RATIOS OF MERCHANDISE EXPORTS & IMPORTS TO GNP 1970 & 1978–85



In 1985, U.S. goods imports—including oil—were almost 70 percent greater than U.S. goods exports. But even more significant, imports of manufactures—the goods produced by factories—were some $269 billion, almost 66 percent greater than U.S. manufactures exports. This influx of manufactures imports raised the ratio of imports to total U.S. goods production to a new high in 1985, about 35 percent of total, up from 33 percent in 1980 and 34 percent in 1984 (Figure 1.11). The manufactures trade balance has deteriorated $117.9 billion from the $10.5 billion surplus in 1981 to a record 1985 deficit of $107.4 billion in 1985.

Figure 1.11

U.S. RATIOS OF MERCHANDISE IMPORTS TO GOODS PRODUCTION, 1980–85



Manufactured goods imports are highly visible and, though there is no U.S. producer of a number of items, most manufactures imports still compete directly against U.S. producers. Indeed, the National Association of Manufacturers estimates that about 70 percent of U.S. manufactured goods face foreign competition. This competition speeds the pace of adaptation and structural change within the U.S. economy and increases its efficiency. But structural change, though beneficial from a long-term macroeconomic standpoint, frequently imposes immediate costs on displaced firms and workers. Foreign trade is not the only major source of structural change. Much of the structural change in output and employment taking place in the U.S. economy results from new technologies, productivity growth, shifts in consumer preferences and other factors. Nevertheless, the effects of trade on the U.S. economy—both those welcome and those not so welcome—are increasingly significant. (The effects of trade on U.S. employment are reviewed in greater detail in Chapter 10 and in the special topic "Contribution of Exports to U.S. Employment" in Chapter 11.).

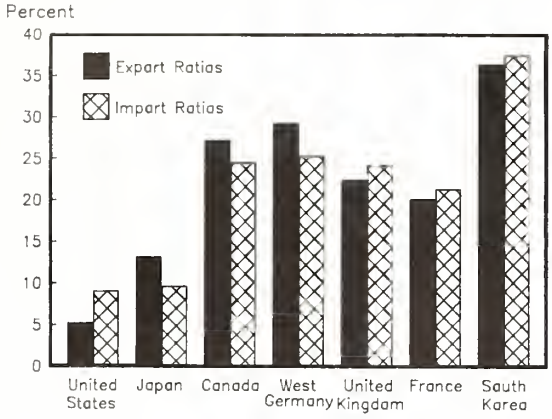
Despite the increasing effects of international trade on the U.S. economy, U.S. merchandise trade accounts for a significantly smaller portion of GNP than is the case for many other industrialized and developing countries (Figure 1.12). It follows that the U.S. economy is relatively less affected by fluctuations in international trade levels and balances than many others.

Effects of U.S. Trade Deficits

The world economy is in a constant state of change and evolution. Changing economic and political conditions around the world, differing saving and investment rates and national economic growth rates, new technologies, changing national production capabili-

ties and costs, and many other ever-changing factors alter the size and directions of international flows of trade and investment. These fluctuations may produce large trade and current account deficits for some countries and offsetting surpluses for others.

Figure 1.12
NATIONAL RATIOS OF MERCHANDISE EXPORTS & IMPORTS TO GNP IN 1985



While trade and current account deficits in themselves are not unusual, U.S. deficits have grown very rapidly since 1983 and have become unusually large. Recent U.S. deficits are the largest ever recorded by any country. In 1984 the merchandise trade deficit grew sharply relative to the size of the U.S. economy, reaching a ratio of 3.1 percent to GNP (balance-of-payments basis), the highest in recent U.S. history. In 1985 deficit growth continued at a higher rate than U.S. economic growth, raising the percentage to 3.7 (Figure 1.13.). While these are very high trade deficit-to-GNP ratios for an advanced industrialized country, they are not unique. In fact, Italy, the United Kingdom, and some other major trading nations briefly ran merchandise trade deficits ranging up to 5.5 percent of GNP during some years of the 1970s.

But because of the critical role of U.S. trade in the world economy, wide fluctuations in U.S. trade performance are of special concern both to the United States and its trading partners. Recent U.S. trade and current account deficits have benefited both the United States and the global economy in several ways noted earlier. But there are also potential problems—for both the United States and its trading partners—associated with these large deficits.

Effects of U.S. Borrowing From Abroad. The current account is a measure of the balance of a nation's international transactions—goods and services trade, international investment payments and receipts, and unilateral transfers. As such it is a measure of how much a national economy borrows from (or lends to) other countries. The recent current account deficits of the United States indicate that it is consuming more goods and services than it is producing. The gap is filled by net imports financed through borrowing from abroad.

Advanced industrial countries have in the main been capital exporters, normally experiencing current account deficits for relatively short periods and in amounts that did not have major effects on world capital flows. But in recent years the net inflows of capital into the United States manifested in large U.S. trade deficits have reduced significantly the supply of capital available to other countries and increased its cost for them. Indeed, it has been estimated that net capital inflows to the United States in 1985 were about 9 percent of the free world's gross savings outside the United States. One result of the U.S. transition from net lender to net borrower is, therefore, reduced investment and internally generated growth in the capital-exporting countries.

The U.S. current account deficit equalled 2.8 percent of GNP in 1984 and 3.0 percent in 1985. Japan and Germany in 1985 had complementing surpluses of 3.7 and 2.1 percent of GNP, respectively (Figure 1.14).

Figure 1.13
RATIOS OF U.S. MERCHANDISE & CURRENT ACCOUNT BALANCES TO GNP, 1981–85
(Balance-of-Payments Basis)

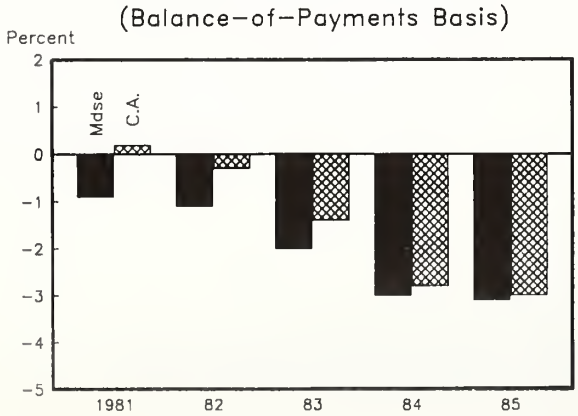
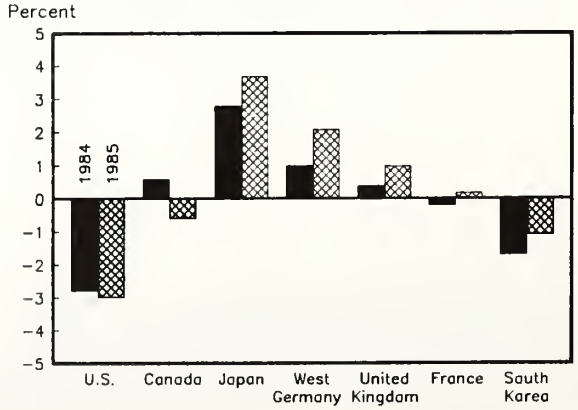
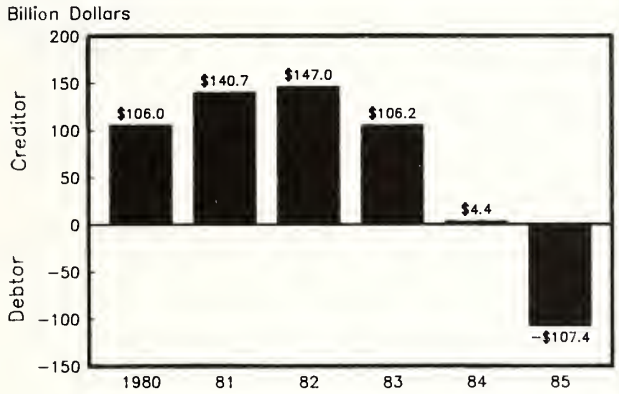


Figure 1.14
RATIOS OF CURRENT ACCOUNT BALANCES TO GNP OF SELECTED COUNTRIES, 1984 & 1985



The continuing large U.S. trade and current account deficits and the matching capital inflows are producing a rapidly growing U.S. international debtor position (Figure 1.15).[4]

Figure 1.15
U.S. INTERNATIONAL INVESTMENT POSITION, YEAR-END 1980-85



The United States took nearly 70 years to accumulate a peak creditor position of almost $150 billion reached in 1982. But the rapid deterioration in trade and current account balances that began in 1983 dissipated this position in only three years, bringing the United States to a net debtor status of about $107 billion by year-end 1985.

Some analysts project that the U.S. debtor position could approach or even exceed $800 billion by 1990. While adjustments in world trade flows preventing such a large U.S. debtor position seem likely, the United States has become the world's largest debtor nation, topping Brazil's external 1985 debt of about $106 billion. Moreover, at least some significant further debt growth in 1986 and beyond seems virtually assured, given that trade flows normally change only relatively slowly. The U.S. debtor position, however, differs in many respects from that of Brazil and other developing countries. The growing U.S. debtor position is discussed in detail in Chapter 10.

Potential Adjustment Problems. Large, growing net inflows of capital to the United States and the corresponding trade and current account deficits reflected in a rapidly growing U.S. international debtor position cannot continue indefinitely. Adjustments that narrow or eliminate U.S. current account deficits and debt growth must ultimately occur. Major adjustments in capital flows and in the current account are typically reflected primarily in changes in merchandise trade balances.

Some principal implications of the changes in capital and merchandise trade flows that must sooner or later occur are described in Chapter 10.

[4] The net U.S. international creditor/debtor position is the value of foreign assets owned by U.S. citizens less the value of U.S. assets owned by foreign citizens and is frequently referred to as the "international investment position."

2

UNITED STATES TRADE PERFORMANCE

THE COMPOSITION OF U.S. INTERNATIONAL TRANSACTIONS

The U.S. current account balance—a measure of the balance of goods, services and other U.S. transactions with other countries—hit a record deficit of almost $118 billion in 1985, a growth of more than $10 billion from the $107 billion deficit in 1984. The current account balance measures how much a country borrows from or lends to other countries each year. Large annual current account deficits beginning in 1983 have moved the United States from a peak 1982 creditor position of about $150 billion to an end-1985 net debtor position of about $107 billion.

The annual current account balance summarizes many different kinds of international transactions. For analytical purposes, the account can be divided into five broad categories: merchandise trade, business services trade, interational investment income, "other" goods and services transactions, and net unilateral transfers.

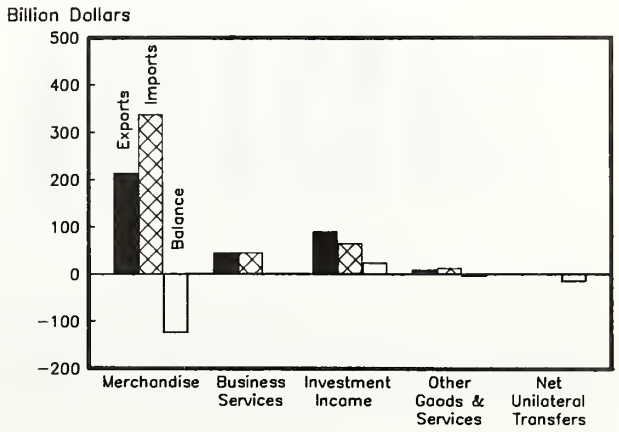
Merchandise trade in 1985 accounted for two-thirds of the transactions recorded in the current account, investment income for about one-sixth of the total, and business services about one-tenth. The U.S. balance, however, is inevitably determined primarily by the balance on merchandise trade. The 1985 merchandise trade deficit of $124.3 billion (balance-of-payments basis) dwarfed the $0.2 billion surplus on business services trade (Figure 2.1). Income on international investments at $24.7 billion was a more significant factor, but has declined significantly from the 1981 peak of $34.1 billion.

Exchanges of business services represent only a very small portion of total U.S. international transactions. The U.S. business services balance peaked at $9.6 billion in 1981, but at $0.2 billion in 1985 was only slightly positive. Moreover, the composition and character of business services trade probably preclude significant growth in its relative importance and will likely tend to prevent large annual deficits or surpluses in the account. (Chapter 5 provides a more detailed examination of business services trade.)

The U.S. balance on "international investment income" has for many years been positive, reflecting a larger stock of U.S. investments abroad than the stock of U.S. assets held by foreigners. But in the near term, a continued deterioration in net receipts due to a growing U.S. net debtor position should be expected. If debt growth continues, net outflows of international investment income will inevitably result.

Figure 2.1

U.S. CURRENT ACCOUNT COMPONENTS, 1985
(Balance of Payments Basis)



The U.S. balance on "other" goods and services transactions has been marginally negative for the last eight years, totalling $3.4 billion in 1985. Unilateral transfers, for which there is no returned merchandise or current services *quid pro quo,* include continuing U.S. government transfers abroad for foreign aid, payments for support of military bases, pensions and other payments to individuals living abroad, private gifts, etc. Net unilateral transfers reached a record $14.8 billion outflow in 1985. Continued gradually enlarging negative balances should be expected. (Chapter 6 provides a more detailed discussion of the role of investment income and other transactions in the current account.)

Merchandise trade—trade in goods—has, therefore, been the critical factor in determining the U.S. current account balance and the rapid change in the U.S. international investment position from net creditor to net debtor. Merchandise trade has been—and will continue to be—the dominant factor in U.S. international economic performance. This dominance will continue both because it is much larger than the other types of international exchanges and because merchandise trade balances can change more rapidly than those in other areas. (Since 1980 the merchandise trade account on a balance-of-payments basis has deteriorated almost $100 billion.)

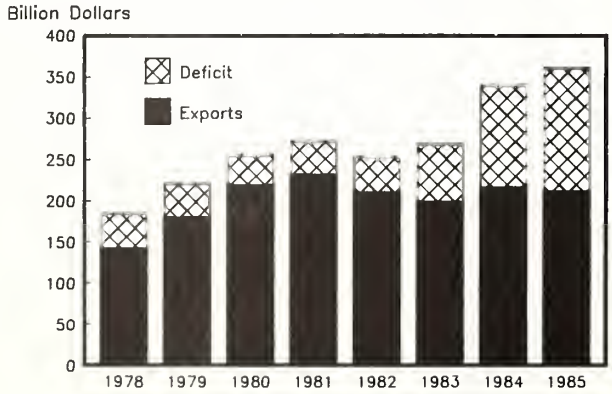
U.S. MERCHANDISE TRADE PERFORMANCE

The United States merchandise trade deficit in 1985 reached a record of $148.5 billion (c.i.f. Census basis), increasing $25.2 billion (20 percent) from the previous 1984 record of $123.3 billion (Figure 2.2).[5] U.S. merchandise trade performance has deteriorated sharply since 1982. Imports declined briefly in 1982 and then began to recover in 1983 with rapid growth in 1984 and continued growth in 1985, returning total imports to the long term trend line. U.S. exports, however, have lagged. Indeed, 1985 U.S. exports were 2.2 percent below 1984 levels and almost 9 percent below the 1981 peak level. Imports, however, have hit new highs, reaching $361.6 billion in 1985, almost one-third greater than the 1981 level.

Imports in 1985 were 6 percent above 1984 levels, increasing at a slower pace than the 1984 record growth of 26 percent. Imports in 1985 were almost 70 percent greater than exports, entering the United States at almost a billion dollars a day.

Figure 2.2

U.S. MERCHANDISE EXPORTS, IMPORTS AND DEFICIT, 1978–85



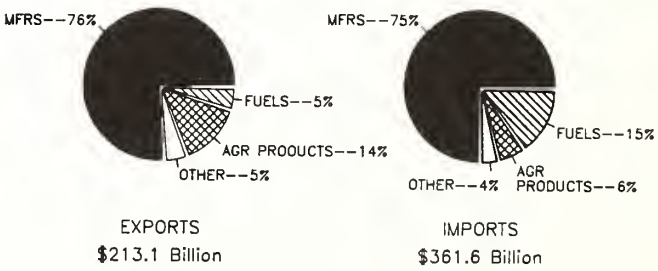
[5] Hereafter, unless otherwise noted, merchandise trade data cited are on the Census measurement basis: domestic and foreign exports, free along side (f.a.s.); general imports, cost, insurance and freight (c.i.f.). The originally reported 1984 deficit of $123.3 billion cited above was revised upward by the U.S. Bureau of the Census in early 1985 to $127.6 billion.

THE COMPOSITION OF U.S. MERCHANDISE TRADE

The commodity sources of the deterioration of U.S. goods trade performance can be better understood by breaking U.S. trade into four major categories: manufactures, mineral fuels, agricultural products and "other" goods. This broad breakdown reveals the dominant role of manufactures trade, with manufactured goods accounting for about three-fourths of both U.S. exports and imports (Figure 2.3). A dissection of total trade, however, shows that manufactures trade is critical to U.S. trade performance for reasons other than its sheer size.

Figure 2.3

COMPOSITION OF U.S. MERCHANDISE TRADE, 1985



Mineral Fuels

Mineral fuels imports—mostly oil and gas—have generated very large deficits in recent years, far outweighing relatively modest coal exports (Figure 2.4). Oil imports peaked in 1980 at $82 billion, leaving the United States with a $74 billion dollar mineral fuels deficit that year. Since 1980, both oil prices and import volumes have trended downward, reducing U.S. mineral fuels imports to $56 billion in 1985 and the mineral fuels deficit to $45.9 billion.

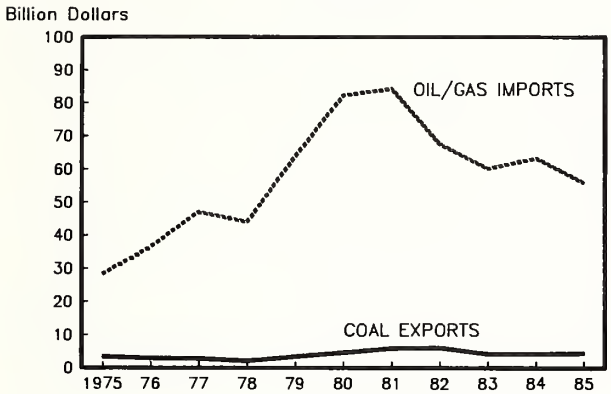
At current import volume levels, each $1 per barrel decline in oil prices cuts the U.S. oil import bill about $2 billion. Recent oil price decreases should further cut the oil import deficit in 1986 and hold down oil import costs in the years immediately ahead. Even with the benefit of significant price reductions, however, the U.S. oil import bill will stay very large. For example, at 1985 volume levels, an average price of

$20 per barrel would result in oil import costs still about $43 billion per year; at $15 per barrel the cost would be about $32 billion.

Given continued economic growth and increased oil use encouraged by price declines, U.S. oil import volumes will likely rise at some point. Moreover, oil import prices may turn up again. But even given favorable price and volume developments, large U.S. oil import bills seem assured for the foreseeable future. (U.S. oil trade is examined in greater detail in "Changing Trends In U.S. Petroleum Imports" in the Chapter 11 special topics section of this report.)

Figure 2.4

U.S. MINERAL FUELS TRADE
1975–85

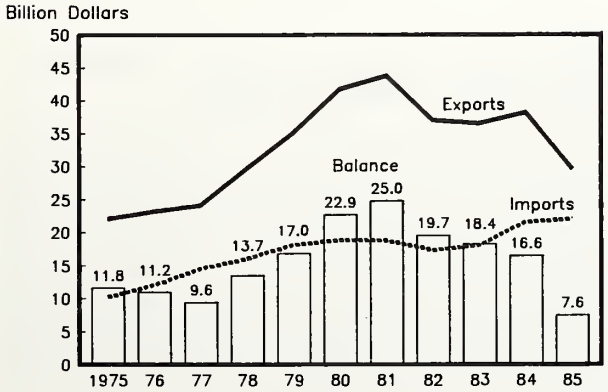


Agricultural Trade

Agricultural trade provided the United States with substantial surpluses in earlier years, but more recently surpluses have been shrinking and prospects for the future continue to be less favorable. The peak U.S. agricultural surplus was $25 billion in 1981 (Figure 2.5). Both the price and volume of U.S. agricultural goods exports, however, have been declining in recent years, while imports have been increasing. The 1985 U.S. surplus was only $7.6 billion.

Figure 2.5

U.S. AGRICULTURAL GOODS TRADE
1975–85



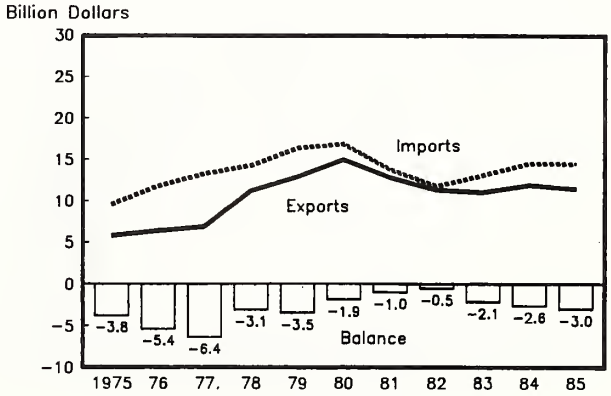
Significant increases in U.S. agricultural surpluses will be difficult to achieve. A strong dollar has had unfavorable effects on U.S. agricultural trade, but changing global supply-demand relationships may be even more important to future trends. In recent years, global food supplies have been growing faster than global demand. This continuing "green revolution" is partly the result of the use of better agricultural technology abroad and the development of better infrastructure to support food production and distribution in many countries, especially in developing countries. It also results from the increased use of market price incentives in many developing and centrally planned economies and from the increased use of agricultural production subsidies in many countries, including the European Community.

Other Non-manufactured Goods Trade

This third category has not been a key factor in U.S. trade. (Other non-manufactured goods include: paper pulp, wood, hides and skins, beverages, metal ores.) In 1985 other goods provided only 5.3 percent of U.S. exports and 4.0 percent of U.S. imports. Moreover, this commodity group has produced small deficits for many years. Deficits since 1975 have ranged from $6.4 billion in 1977 to $0.5 billion in 1982, with 1985 yielding a $3.0 billion deficit.

Figure 2.6

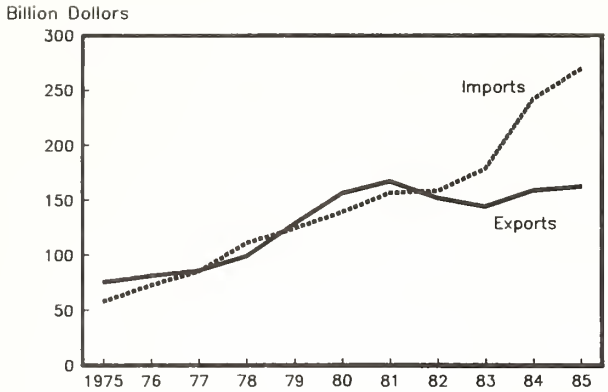
U.S. "ALL OTHER" GOODS TRADE,
1975–85



Manufactures Trade

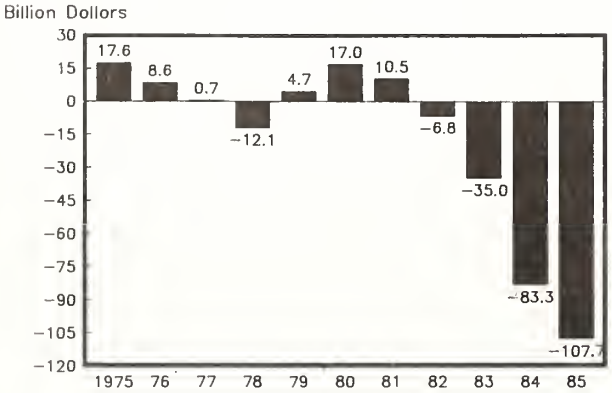
U.S. manufactures trade is huge and growing. Its product composition is dynamic and import sources, export destinations and inter-country balances are changing rapidly. U.S. manufactures exports were $162 billion in 1985, 76 percent of total goods exports; manufactures imports at $269.4 billion were 75 percent of total goods imports. Manufactures exports have sagged in the last several years and in 1985 were still 3 percent below the peak 1981 level of $166.8 billion (Figure 2.7). Manufactures imports, however, have increased without interruption for many years and in 1985 were $113 billion more than in 1981, an increase of 72 percent in only four years.

Figure 2.7
U.S. MANUFACTURES TRADE
1975–85



The recent deterioration in U.S. manufactures trade has been the dominant factor in increasing U.S. merchandise trade deficits. As recently as 1981 U.S. manufactures trade produced a modest surplus, but performance has since declined rapidly (Figure 2.8). The 1985 U.S. manufactures trade deficit was $107.7 billion, a swing of $117.9 billion in only four years from the 1981 surplus of $10.5 billion.

Figure 2.8
U.S. MANUFACTURES TRADE BALANCES,
1975–85



The $118 billion slippage in the manufactures trade balance since 1981 has been greater than the total merchandise trade balance deterioration of $109 billion (Figure 2.9). A $28 billion improvement in the mineral fuels balance since 1981 has partially offset the shrinkage in agricultural surpluses and the dramatic declines in manufactures balances and thus somewhat restrained enlargement of the total merchandise trade deficit.

The deterioration in U.S. manufactures trade performance has been even more dramatic in volume terms, with 1985 export volume still 14 percent below the 1981 level, while import volume was 70 percent higher (Figure 2.10).

Figure 2.9
CHANGES IN U.S. MERCHANDISE TRADE
BALANCES, 1981–85

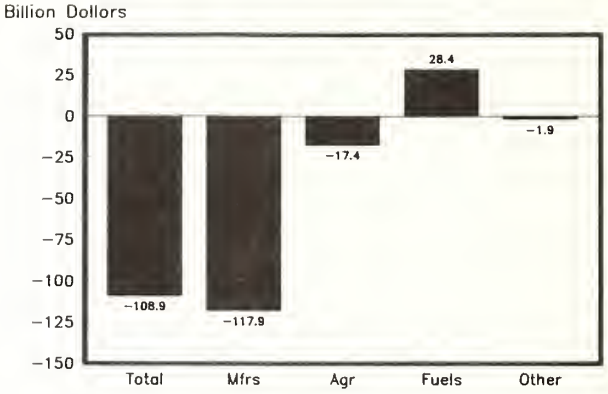
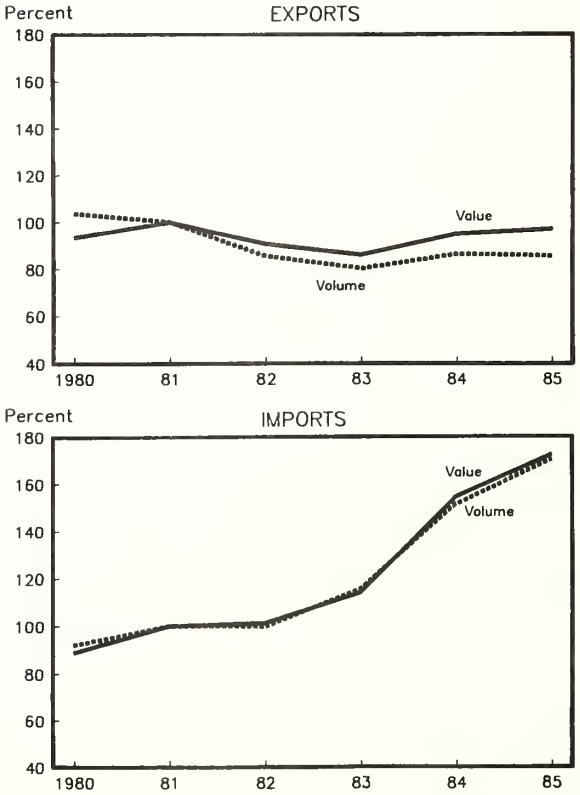


Figure 2.10
U.S. MANUFACTURES TRADE VALUE AND VOLUME,
1980–85
(Index 1981=100)



MANUFACTURES TRADE: THE KEY TO DEFICIT REDUCTION

Manufactures trade dominates the U.S. trade account both because of its size and because of rapid changes in export and import trends. The dominant role of manufactures trade in U.S. trade and current account performance is not unique. In fact, the great majority of world trade is an exchange of manufactured goods and the portion has been rising. In 1970, about 74 percent of world non-energy exports was manufactured goods. By 1980 the portion had risen to 79 percent and in 1984

it was almost 83 percent. Trade among developed countries is even more concentrated in manufactured goods. In 1984 over 83 percent of industrial country non-energy exports and 79.5 percent of non-energy imports were manufactures.

In short, non-energy international trade—particularly among industrial countries—is principally exchanges of goods produced by manufacturing establishments. And the manufactures portion of international trade is likely to continue to increase as global demand for manufactures increases more rapidly than for food and raw materials.

As noted earlier, a deterioration in manufactures trade performance has been the dominant factor in the huge and growing U.S. merchandise trade and current account deficits. The very large improvement in U.S. trade and current account performance that must ultimately occur will also have to be largely in U.S. manufactured goods trade. There are, in fact, no other potential sources of improvement large enough to significantly offset the effects of continuing large manufacturing deficits on the U.S. current account. Thus, to achieve improved current account balances, U.S. manufactures trade deficits must narrow sharply.

Indeed, if the U.S. net debtor position grows to the point where international investment income is a deficit item, sustainable current account balances—balances that do not result in a rapidly growing U.S. international debtor position—may require significant U.S. manufactures trade surpluses, not only to offset oil import deficits, but also to cover net investment income payments to foreign debt holders.

Sizeable shrinkages in the U.S. manufactures deficit could pose significant difficulties for some U.S. trading partners who have become highly dependent on exports of manufactured goods to the United States for their own economic growth. Indeed, U.S. manufactures imports in 1985 were well over one-fourth (27.7 percent) of total non-communist countries' manufactures exports (valued in U.S. dollars excluding U.S. exports). The U.S. manufactures deficit alone equalled about 10 percent of those exports.

ANALYZING U.S. MANUFACTURES TRADE

Given its critical role, much of this report focusses on U.S. manufactures trade. Chapter 3 examines manufactures trade performance on a product basis. Chapter 4 looks at manufactures trade on a regional and country basis. Forces leading to eventual elimination of large U.S. manufactures trade deficits are noted in several parts of the report, and some implications of this inevitable change for the U.S. and world economies are described in Chapter 10.

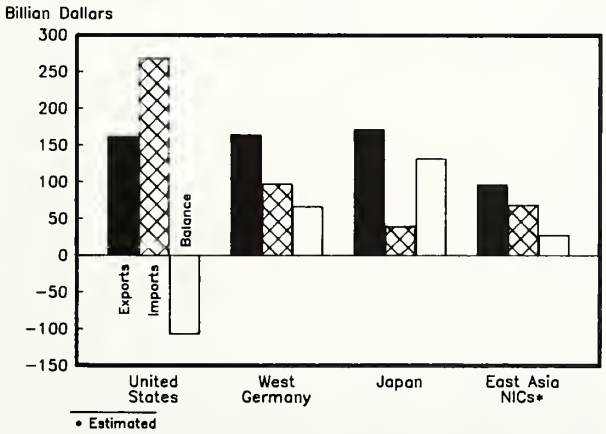
3

MANUFACTURES TRADE DEVELOPMENTS

OVERALL PERFORMANCE

The United States has for some time not been the world's largest exporter of manufactured goods, relinquishing that position to West Germany some years ago. In 1985 Japan was the largest manufactures exporter, West Germany was second-ranking and the United States third (Figure 3.1).

Figure 3.1
MANUFACTURES TRADE OF SELECTED COUNTRIES, 1985



The United States remains the world's largest trader in manufactured goods, largely based on its huge imports of $269 billion in 1985. U.S. manufactures imports were 180 percent greater than those of the second-ranking importer, West Germany. Japan's 1985 manufactures imports were a trivial $40 billion, only slightly larger than those of The Netherlands. In fact, Japan's per capita imports of manufactures are only about one-quarter of the comparable U.S. figure.

The dominant role of declining manufactures trade performance in the deterioration of U.S. trade and current account balances and the improved manufactures trade performance essential to improved trade and current account balances were noted in Chapter 2. This chapter dissects U.S. manufactures trade in various ways to highlight performance on a product basis. Data are provided for high-tech trade, non-high tech trade, and for trade in key product groups. A disaggregated analysis may help to identify major product group contributors to growth of the trade deficit as well as products which may be potential sources of improved performance when dollar exchange rate changes and other factors alter.

U.S. manufactures trade performance has deteriorated across most product groups. Erosion is evident regardless of how products are grouped—by division into high-tech versus non-high tech products, by product groups, on an end-use basis (consumer goods, capital goods), or by categorizing products into finished versus semi-finished goods. The following examines the shifts that have taken place within some of these categorizations.

HIGH-TECH VERSUS NON-HIGH TECH TRADE [6]

There has long been a perception that, while the United States might expect increasing competition from LDCs and others in lower technology manufactures, the U.S. position in high-technology products would remain relatively strong. In fact, however, there

[6] In this analysis high-tech items are defined as those U.S. products embodying significantly more R&D expenditures per unit of output than others (the so-called DOC-3 definition).

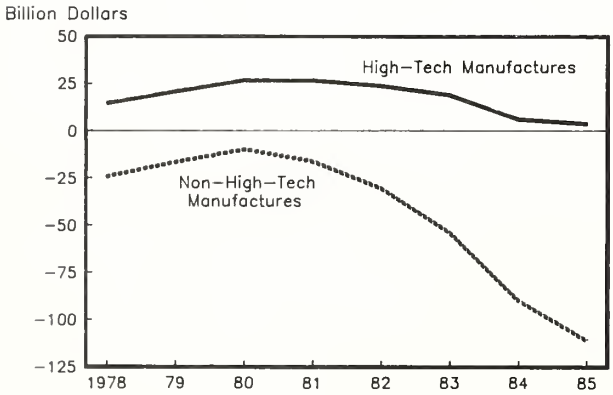
has been a rapid growth in the scope and success of foreign competition with U.S. high-tech products in both the U.S. market and in foreign markets.

The technology intensity of total U.S. and world manufactures trade has been steadily rising. Between 1981 and 1984 the high-tech share of total U.S. manufactures trade (exports plus imports) rose by one-third, from 29 to 41 percent. This increase in the technology intensity of manufactures trade reflects more rapid U.S. and foreign growth in demand for high-tech products than for other products. It also reflects the efforts of U.S. and some foreign producers to raise the value-added portion of their output by moving from lower to higher technology products.

A marked long-run worsening in U.S. trade performance in non-high tech manufactures has been evident for some time. But recently there has also been rising world competition in high-tech goods. That has resulted in a rapid deterioration in U.S. performance in high-tech goods trade. Both the high-tech and non-high tech groups have been typified by stagnant U.S. exports and rapidly rising U.S. imports. In 1981 U.S. trade in high-tech goods was 40 percent as large as trade in non-high tech manufactures (Figure 3.2). The surplus in high-tech goods dropped from $26.6 billion in 1981 to $3.6 billion in 1985. Over the same period the deficit in non-high tech goods increased from $16 billion to $111 billion.

Figure 3.2

U.S. HIGH-TECH AND NON-HIGH TECH MANUFACTURES TRADE BALANCES, 1978-85



Non-High Tech Manufactures

This group includes those products traditionally most vulnerable to foreign competition. U.S. trade in non-high tech manufactures has been in deficit for a number of years prior to 1981 and deficits have recently grown rapidly to $111 billion by 1985. Indeed, by 1985, non-high tech imports were more than twice as large as exports of these items.

About one-third of the deterioration in the non-high tech manufactures trade between 1981 and 1985 was accounted for by growing deficits in motor vehicles and parts, which reached $45.6 billion in 1985. A large share of the remainder of deficit growth was in non-electronic consumer goods, such as apparel and accessories (-$9 billion), footwear (-$3 billion), toys and sporting goods, and furniture. The remainder of the deterioration was in non-high tech capital goods, such as specialized industrial machinery (-$7 billion), and semi-manufactures such as paper and paper board (-$2 billion), organic chemicals, steel and electric machinery.

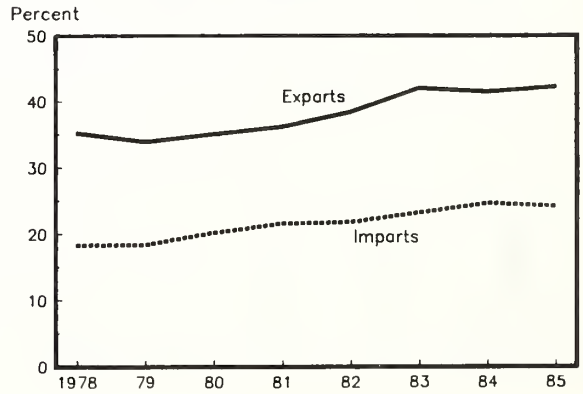
Use of technology-intensive manufacturing processes, new materials, computer-assisted product design, and assembly by robots has been increasing in the non-high tech sector and has no doubt somewhat slowed erosion of the trade balance in these products. Use of advanced technologies in lower technology products, however, is not as widespread as in high-tech goods.

High-Tech Products

Long dependent on technological leadership for much of its international competitiveness, the United States cannot substantially narrow its trade deficit without improved performance in this area. This dependence is reflected in the rising share of high-tech products in U.S. manufactures trade. In 1981 and 1985 about 42 percent of U.S. manufactures exports were high-tech products. But import competition is also increasingly focused on the high-tech area: the share of high-tech products in U.S. manufactures imports rose from 22 percent in 1981 to 24 percent in 1985 (Figure 3.3).

Figure 3.3

HIGH-TECH SHARES OF U.S. MANUFACTURES EXPORTS & IMPORTS, 1978-85



The U.S. trade surplus in high-tech products shrank steadily from $26.6 billion in 1981 to $3.6 billion in 1985. Over that period high-tech exports grew $8.8 billion to $68.4 billion, but high-tech imports grew $31 billion to $64.8 billion (Figure 3.4).

The high-tech trade surplus plunged by $12.7 billion in 1984, but the decline slowed in 1985, slipping only another $2.4 billion. The $2.5 billion 1985 increase in the high-tech trade deficit with Japan—to $18.6 billion—was the chief source of the 1985 shrinkage in the high-tech trade surplus (Figure 3.5). Decreases in U.S. high-tech trade surpluses with the EC and Can-

Figure 3.4

U.S. HIGH-TECH MANUFACTURES EXPORTS & IMPORTS, 1978-85

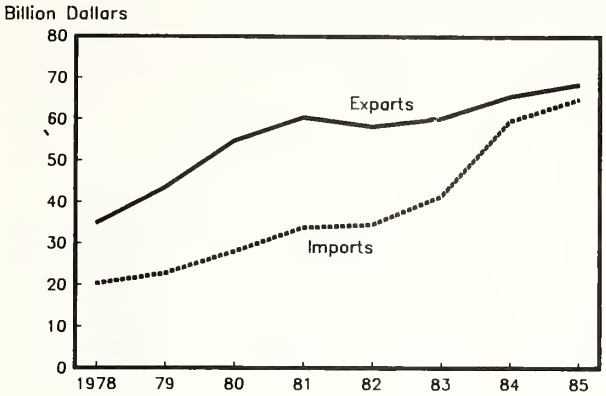
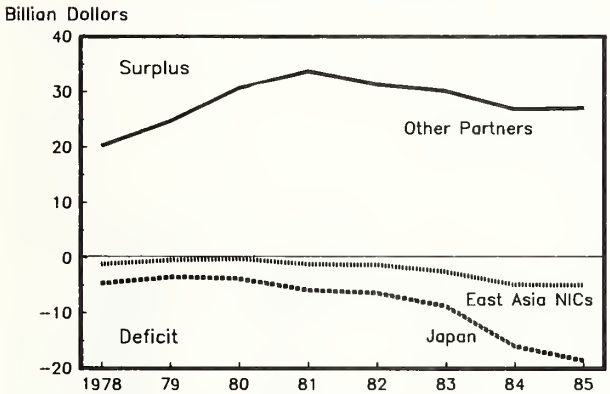


Figure 3.5

U.S. HIGH-TECH TRADING-PARTNER BALANCES, 1978-85



ada also contributed to the decline in the surplus. High-tech surpluses with other developed countries and with developing countries rose marginally, but the high-tech deficit with East Asian NICs remained unchanged at nearly $5 billion in 1985.

The $5.3 billion 1985 increase in high-tech imports came almost entirely from Japan and the EC. The smaller $2.9 billion high-tech export increase was spread over a number of diverse markets—Japan, the EC, other developed countries, China, Brazil, and Mexico.

Trade balances deteriorated in 1985 in all high-tech product groups except aircraft and computers (Table 3.1). The $3 billion increase in the aircraft and parts trade surplus was mostly the result of a $4 billion increase in exports, chiefly to other developed countries and the EC. The small increase in the computers and computer parts trade surplus stemmed from modest export increases—the largest to Latin America—combined with sharply decelerated import growth.

As in recent years, the growing trade deficit in communications equipment and electrical components—including radios, TVs, VCRs, and computer chips—was primarily responsible for narrowing the overall high-tech trade surplus (Figure 3.6). Imports in this group, particularly from Japan, continued to increase, while exports fell by nearly $1 billion. Another important source of deterioration and an indication of the worldwide spread of sophisticated technology is the professional and scientific instruments trade balance, which slipped into deficit in 1984 and worsened substantially in 1985. Instrument exports also fell in 1985, while imports from Japan, the EC, and other developed countries rose by about $1 billion.

PERFORMANCE ON A PRODUCT BASIS

An examination of manufactures trade performance by product groups can help further to identify problem areas and sources of the deterioration in the overall balance. This section provides information at two levels of disaggregation, first breaking manufactures trade into 5 broad 1-digit categories and then into 40 narrower 2-digit product groups.

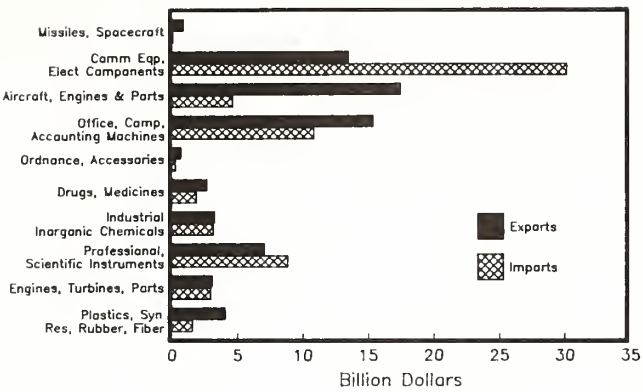
Table 3.1

U.S. High-Tech Trade Balances, by Product, 1984-85
(Millions of dollars)

			1984-85 Change	
	1984	1985	Value	Percent
High-Tech Products, Total	**6,046**	**3,647**	**-2,399**	**-39.7**
Communication equipment & electronic components	-13,918	-16,707	-2,789	20.0
Aircraft, engines & parts	9,856	12,817	2,961	30.0
Professional & scientific instruments	-677	-1,761	-1,084	160.1
Office & ADP machines	4,313	4,520	207	4.8
Engines, turbines & parts	908	147	-761	-83.8
Drugs & medicines	955	778	-177	-18.5
Guided missiles, spacecraft & parts	735	703	-32	-4.4
Industrial inorganic chemicals	265	114	-151	-57.0
Ordnance & accessories	642	459	-183	-28.5
Plastic materials; synthetic resins, rubber & fibers	2,965	2,577	-388	-13.1

Figure 3.6

U.S. HIGH-TECH PRODUCT TRADE, 1985



Manufactures Trade at the 1-Digit Level

Manufactures trade is generally defined to include five broad categories of goods (Table 3.2). Chemicals (sec. 5) and manufactured goods classified by material (sec. 6) are sometimes combined and termed "intermediate goods" or "industrial supplies"—that is, inputs which will be further processed into other products. Machinery and transport equipment (sec. 7) and miscellaneous manufactures (sec. 8) are sometimes identified as "finished goods", or the final products used by producers and consumers. These are highly imperfect descriptors. For example, the machinery and transport equipment group includes many components and parts that will be further processed or assembled into other finished products.

The distinction does, however, provide a rough indication of some basic differences in the technological characteristics of the two groups. The basic technologies for producing chemicals and manufactured goods classified by materials involve the transformation of raw materials into other materials usable for further manufacturing. These transformations are most frequently machine-controlled or machine-driven operations, requiring large-scale capital equipment like furnaces, pumps, mixers, presses, etc. Compared to other types of manufacturing, a relatively limited amount of labor is needed to monitor, regulate, or service the machines and to maintain adequate flows of raw materials.

By contrast, machinery and transport equipment and miscellaneous manufactures technologies generally employ workers using specialized tools to machine and assemble parts into more complex combinations. The labor content of the assembly process is likely to be higher than that of raw materials transformation.

In the long term, robotics will substantially reduce the amount of labor necessary in assembly operations by substituting machines which can perform tasks requiring complex, flexible movements. For the foreseeable future, however, the capital intensity of materials transformation will likely remain higher than that of assembly operations.

The data (Figure 3.7) show some clear trends in the composition of U.S. manufactures trade. One is that finished goods—both machinery and transport equipment (sec. 7) and miscellaneous manufactures (sec. 8)—are growing as a proportion of total U.S. imports. Finished goods imports, the sum of the two groups, increased from 59 percent of total manufactures imports in 1970 to over 70 percent of the total in 1984. The implication is that larger portions of total U.S. imports are concentrated in goods where labor content is relatively high. The shift in the composition of U.S. manufactures imports, as well as the rapid growth of manufactures imports, has implications for the composition and levels of in U.S. manufacturing employment.

Categorized on an intermediate good-finished good basis, the composition of U.S. manufactures imports is significantly different than those of other developed countries. For example, 58 percent of the manufactures imports of other developed countries in 1984 were finished goods, and only 44 percent of Japan's meager manufactures imports were in this category.

Finished goods trade may continue to become a larger portion of total manufactures trade as internationalization of the manufacturing process increases, and as the production of components to be included in larger assemblies becomes more and more specialized and geographically dispersed. For example, a given component—considered in this categorization as a "finished good"—can readily appear three times in U.S.

Table 3.2

U.S. Manufactures Trade Balances, by Major Category, 1980-85
(Millions of dollars)

	1980	1981	1982	1983	1984	1985
Intermediate Goods	755	-6,462	-7,297	-12,631	-25,057	-28,204
Chemicals	11,826	11,389	10,139	8,624	8,185	6,706
Manufactured Goods Classed by Material	-11,071	-17,851	-17,436	-21,255	-33,242	-34,910
Finished Goods	14,867	15,682	969	-13,661	-58,789	-79,310
Machinery & Transportation Equipment	22,798	25,548	13,563	4,014	-29,943	-43,873
Miscellaneous Manufactures	-793	-9,866	-12,594	-17,675	-28,846	-35,437

Figure 3.7

FINISHED GOODS* SHARES OF MANUFACTURES IMPORTS BY DEVELOPED COUNTRIES, 1970–84

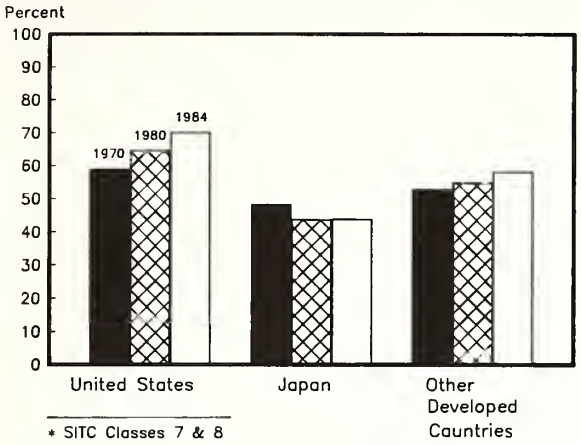
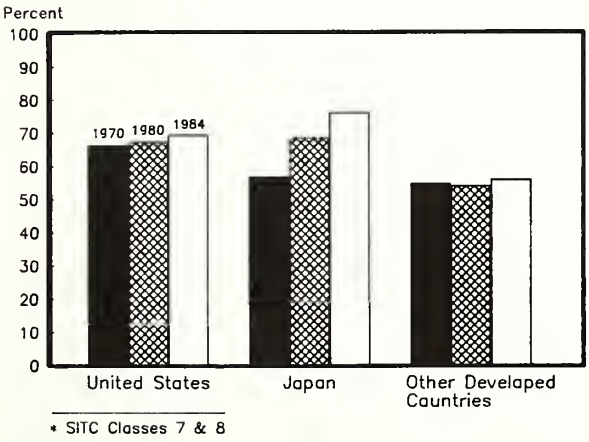


Figure 3.8

FINISHED GOODS* SHARES OF MANUFACTURES EXPORTS FROM DEVELOPED COUNTRIES, 1970–84



trade data: first, as an export when sent out of the country for further assembly into a larger component; second, as an import included in the larger component produced by foreign assembly operations; and third, as an export when included in a finished product for sale abroad.

The composition of U.S. exports based on this intermediate good-finished good categorization has not changed so markedly (Figure 3.8). Chemicals in 1984 were a somewhat larger portion of total manufactures exports than in 1970, although the export share of manufactured goods classified by materials declined significantly. Finished good exports in 1984 were over 69 percent of total manufactures exports, almost the same as the finished goods share of total imports.

Manufactures Trade in Major Product Groups

Manufactures exports and imports are further subdivided from the 5 one-digit groups into 40 2-digit product groups (see "Data Notes" in the Statistical Appendix for descriptions of individual product groups). Sixteen of the 40, however, accounted in 1985 for 73 percent of U.S. manufactures exports and 77 percent of manufactures imports. Since 1980, performance has worsened in all of these 16 major product groups. Deterioration continued in 1985, with only 3 product groups showing improvement over 1984 (Figure 3.9) and surpluses remaining in only 6 of the 16 (Figure 3.10).

Figure 3.9

U.S. MANUFACTURES TRADE BALANCES, BY COMMODITY GROUPS, 1985

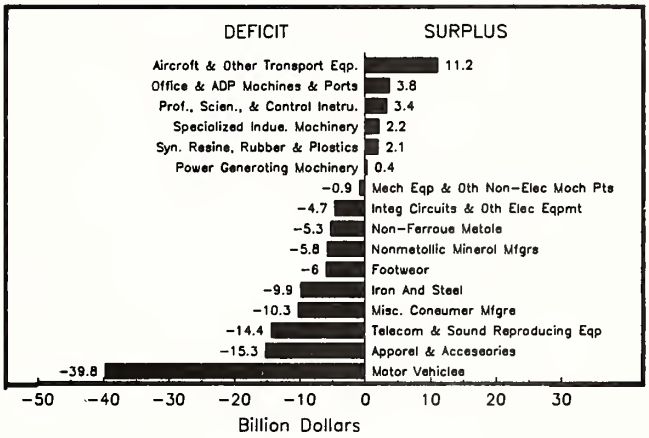
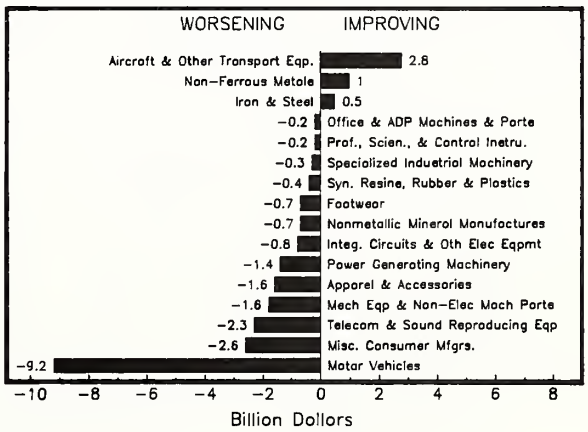


Figure 3.10

CHANGES IN U.S. MANUFACTURES TRADE BALANCES BY COMMODITY GROUPS, 1984–85



Brief analyses of trends and recent developments in the 16 key product groups (depicted in Figure 3.11 through 3.26) follow below. U.S. manufacturing is huge and diverse, but several general conclusions emerge:

- Export growth has been modest for most products in this decade—some declines have occurred;
- Import growth has been consistently strong, frequently due in part to expanded offshore manufacturing of finished products or components;
- Two-way component trade is playing a growing role in manufactures trade;

Figure 3.11

U.S. TRADE IN SYNTHETIC RESINS, RUBBERS & PLASTICS, 1980–85

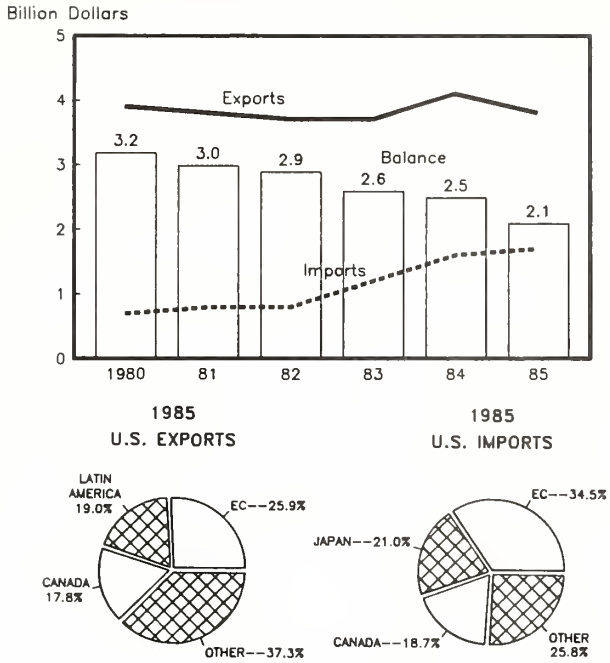


Figure 3.12

U.S. TRADE IN NONMETALLIC MINERAL MANUFACTURES, 1980–85

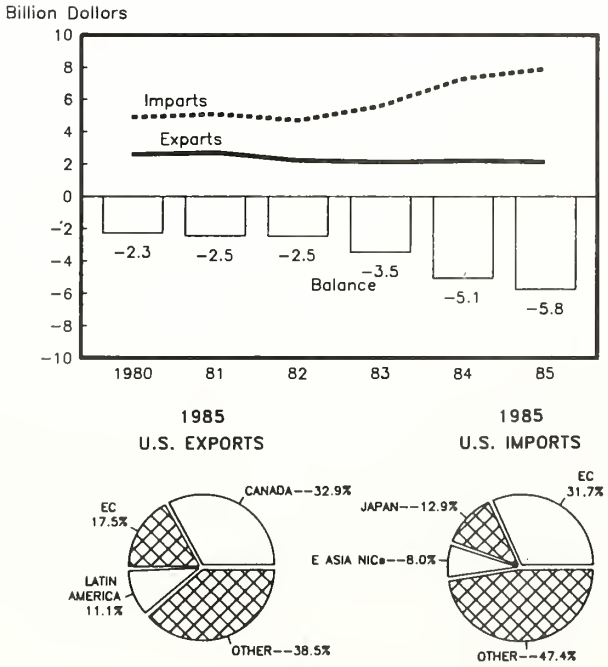


Figure 3.13

U.S. TRADE IN IRON & STEEL MILL PRODUCTS, 1980–85

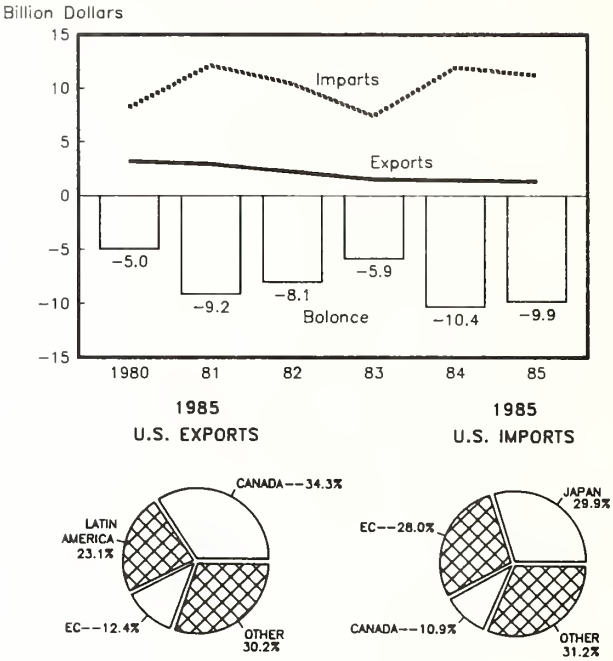


Figure 3.14

U.S. TRADE IN NONFERROUS METALS, 1980–85

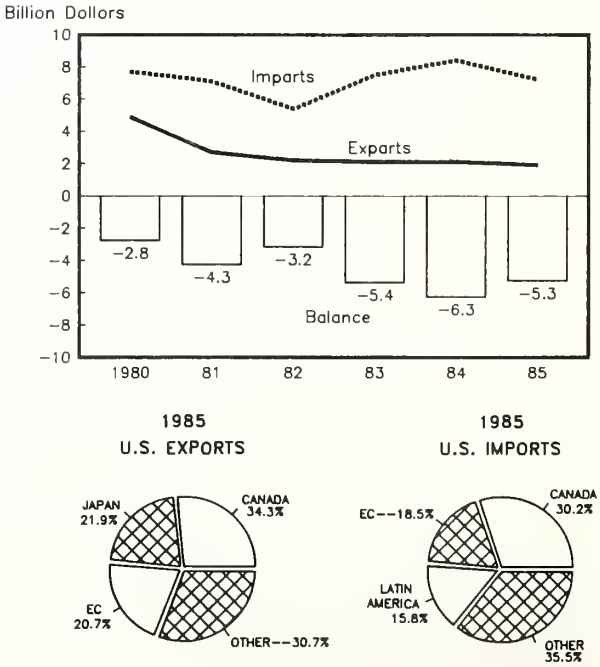


Figure 3.15

U.S. TRADE IN POWER GENERATING MACHINERY, 1980–85

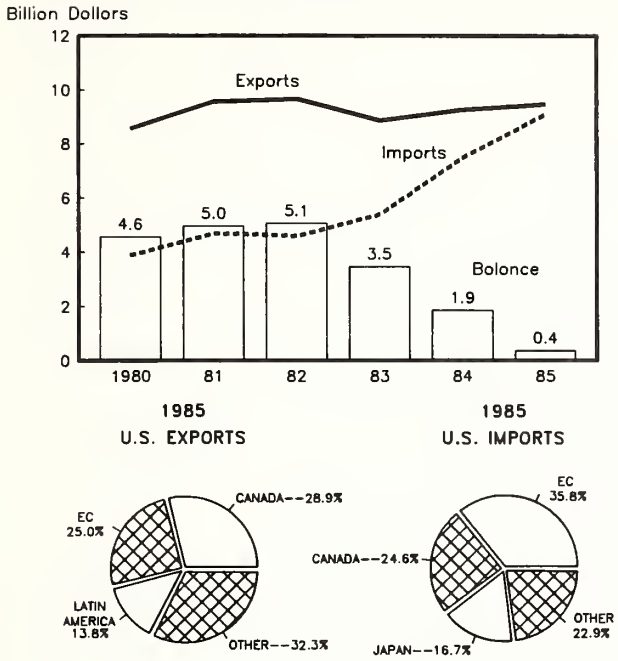


Figure 3.17

U.S. TRADE IN MECHANICAL EQUIPMENT AND NON-ELECTRICAL MACHINERY PARTS, 1980–85

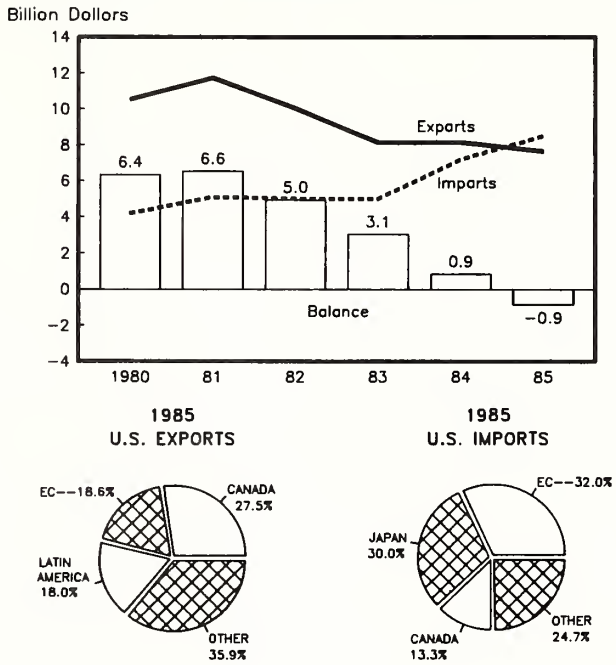


Figure 3.16

U.S. TRADE IN SPECIALIZED INDUSTRIAL MACHINERY, 1980–85

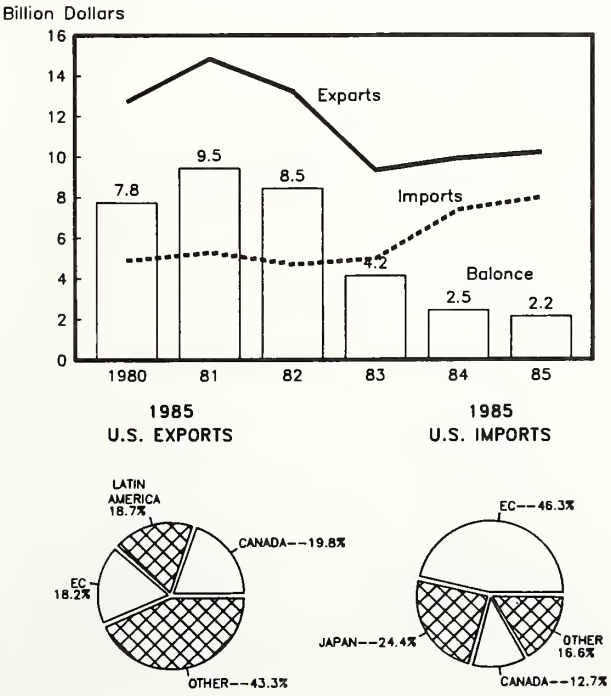


Figure 3.18

U.S. TRADE IN OFFICE & ADP MACHINES, 1980–85

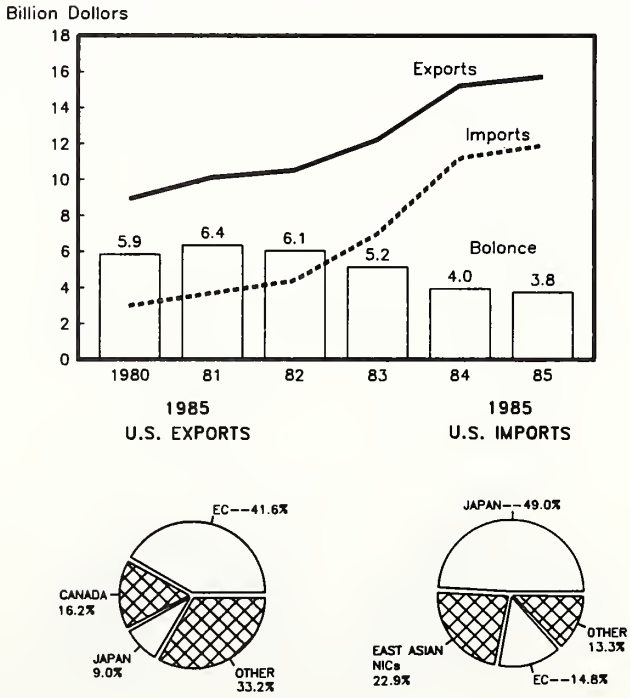


Figure 3.19

U.S. TRADE IN TELECOMMUNICATIONS & SOUND REPRODUCING EQUIPMENT, 1980–85

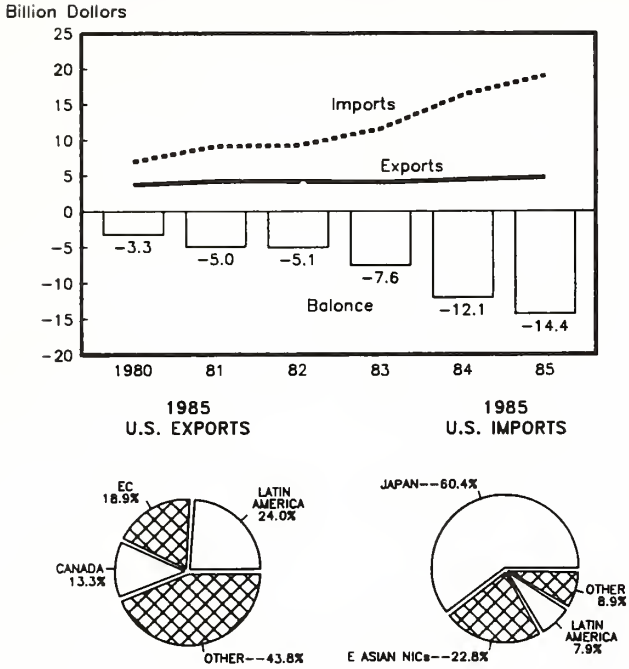


Figure 3.21

U.S. TRADE IN MOTOR VEHICLES & PARTS, 1980–85

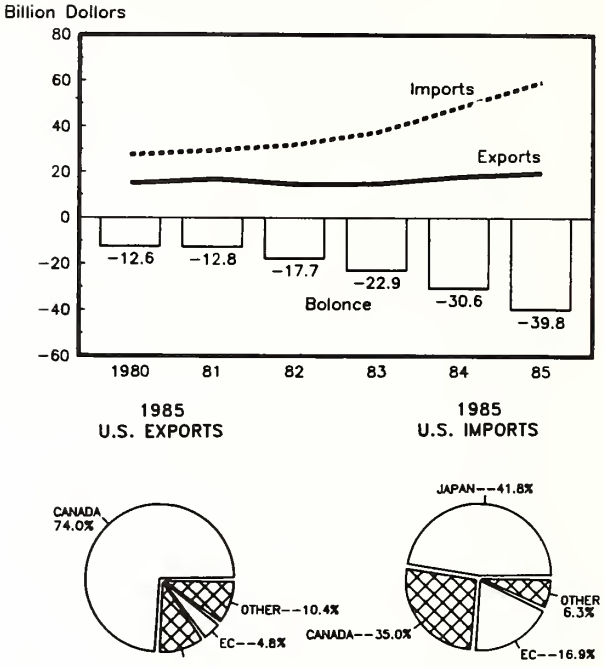


Figure 3.20

U.S. TRADE IN INTEGRATED CIRCUITS & OTHER ELECTRICAL EQUIPMENT, 1980–85

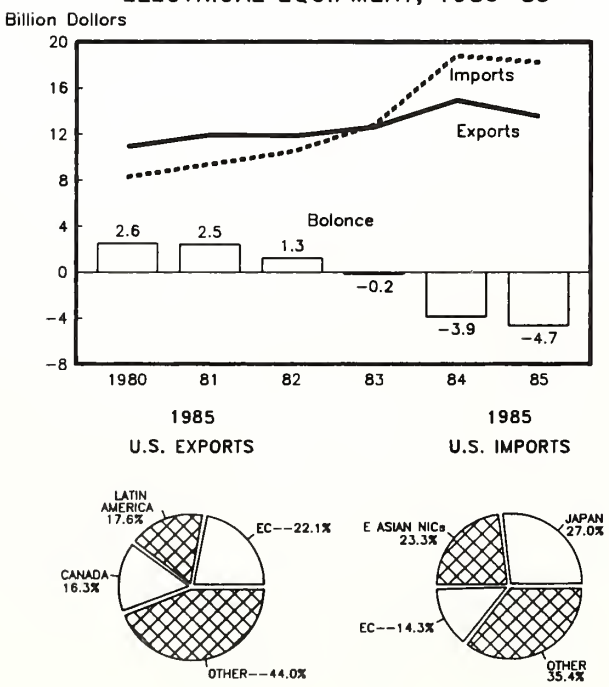


Figure 3.22

U.S. TRADE IN AIRCRAFT & OTHER TRANSPORT EQUIPMENT, 1980–85

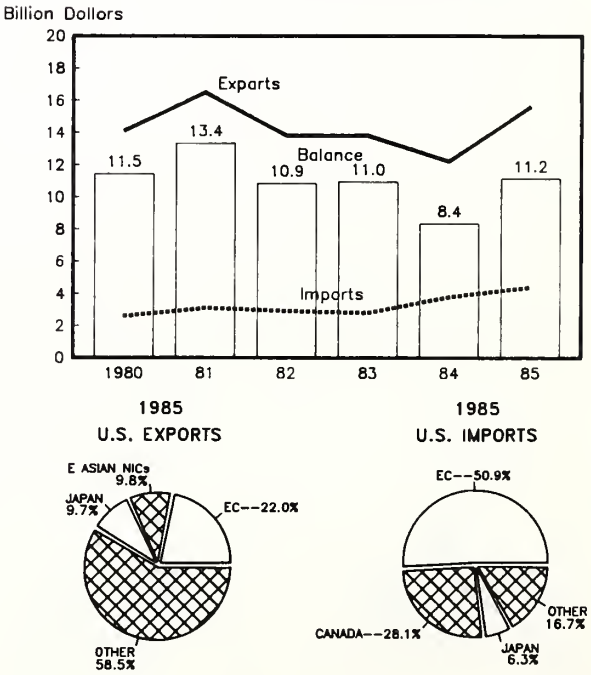


Figure 3.23

U.S. TRADE IN APPAREL & ACCESSORIES, 1980–85

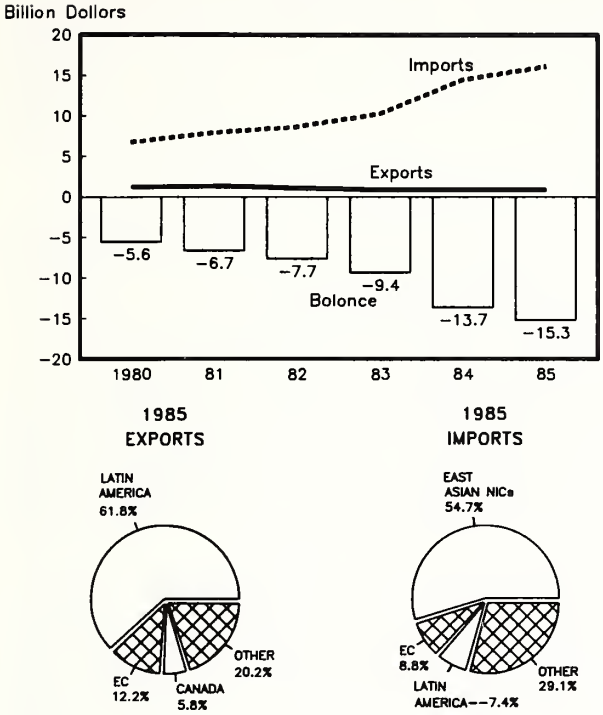


Figure 3.24

U.S. TRADE IN FOOTWEAR, 1980–85

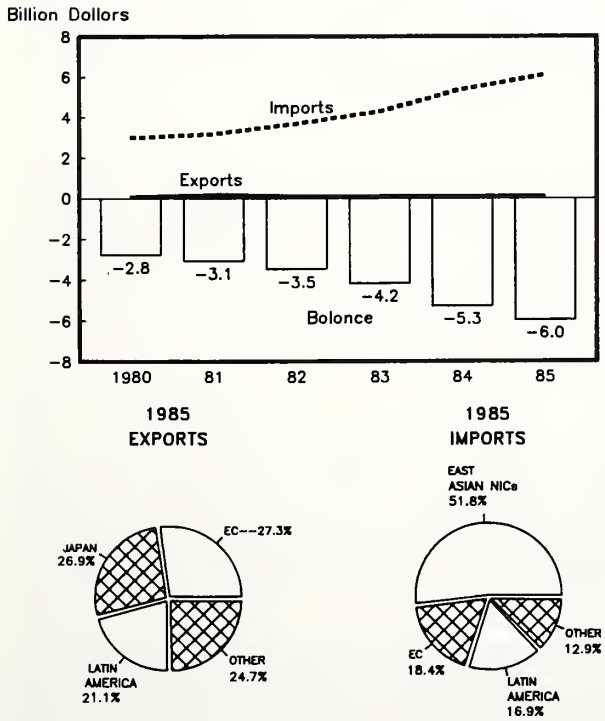


Figure 3.25

U.S. TRADE IN PROFESSIONAL, SCIENTIFIC & CONTROL INSTRUMENTS, 1980–85

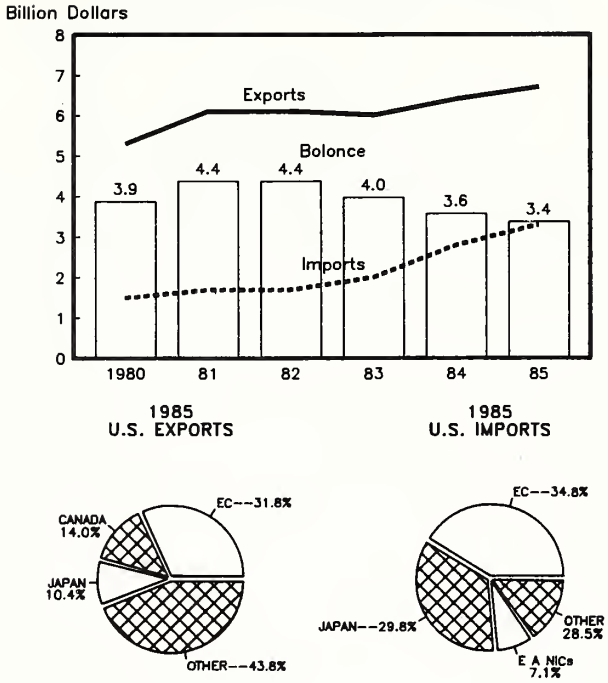
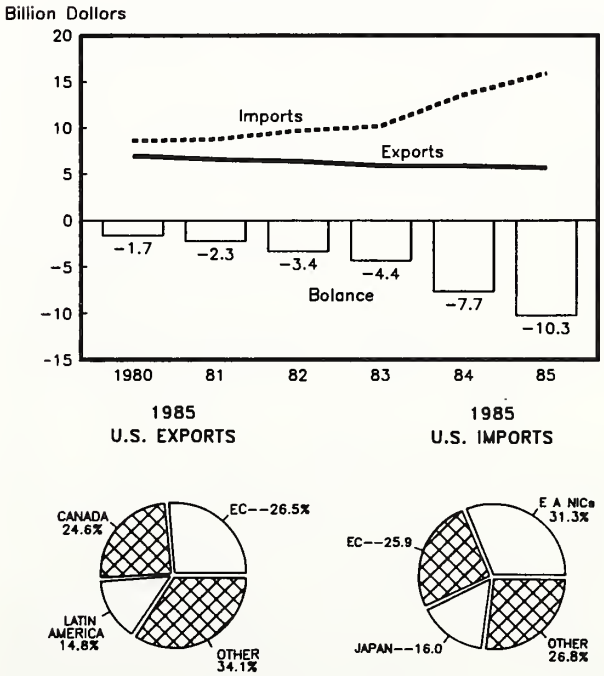


Figure 3.26

U.S. TRADE IN MISCELLANEOUS CONSUMER MANUFACTURES, 1980–85



- Direct price competition is becoming more important in world manufactures markets as new product life cycles shorten;
- Many U.S. manufacturers are retreating from basic product lines toward high-technology, specialized, or customized products where price competition is a less critical competitive factor;
- U.S. companies have withdrawn from manufacturing some products, retaining only marketing roles;
- Further movement by resource-rich developing countries into downstream processing of oil and other minerals is likely and will increase competition for some U.S. manufacturers who process raw materials.

The Five Largest Manufactures Trade Surpluses [7]

Aircraft and Other Transport Equipment (Sched. A/E 79). After a $1.6 billion drop in 1984, exports for this group—dominated by aircraft—soared $3.4 billion in 1985. Increased air traffic and industry profit margins in 1984 spurred world airlines to resume capacity expansion, boosting the 1985 trade surplus to $11.2 billion, the largest of any manufactures product group. But import growth has also accelerated, so that the 1985 surplus is actually more than $2 billion short of the peak 1981 surplus of $13.4 billion.

The United States has faced increasing competition in markets for large transport aircraft. Airbus Industries, the European aircraft consortium, increased shipments to the U.S. market as Pan Am took delivery in 1985 of more A300 commercial transports. And like many other industries, aircraft manufacturing is becoming internationally integrated, with many aircraft components coming from foreign suppliers, thus reducing the domestic content of complete products.

Office Machines and ADP Equipment (Sched. A/E 75). Although exports of computers and components have grown a healthy 77 percent from 1980 to 1985, imports have soared a remarkable 295 percent. Import growth reflects two basic structural changes: the entry of new foreign suppliers—chiefly Japan—of low-priced, high-quality products in high-volume, price-sensitive markets; and increased use by U.S. firms of foreign sources for parts and components. The latter change includes increased production and assembly offshore by U.S. firms. The United States remains the technological leader in emerging specialized products like super micro-minicomputers, but foreign suppliers are making increasing inroads in products for mass markets.

In 1985, import growth decelerated sharply, reflecting slowing growth of the U.S. computer market. Foreign suppliers are well-placed, however, to take advantage of an expected resurgence in U.S. demand for computers.

Professional, Scientific, and Controlling Instruments (Sched. A/E 87). The trade surplus in this group has declined only slightly from $3.9 billion in 1980 to $3.4 billion in 1985. As in several other manufactures industries, however, continuing high import growth rates threaten to accelerate shrinkage of the surplus. Dollar appreciation has increased imports of low-technology instruments and accelerated the movement of component manufacturing to offshore sources.

While component imports are increasing, the United States has so far held its own in exports of higher-technology finished products. Most of the growth has been in navigational, analytical and scientific instruments.

Limitations on foreign R&D expenditures due to fiscal constraints are holding down foreign imports of some scientific and analytical instruments. And weak oil prices are depressing demand for controlling instruments that would be a part of installations to expand petroleum capacity in LDCs.

Specialized Industrial Machinery (Sched. A/E 72). The U.S. specialized industrial machinery trade surplus fell from $7.8 billion in 1980 to $2.2 billion in 1985. The decline resulted from both the $2.5 billion 1980-85 decline in exports, mostly to Latin America and the OPEC countries, and the $3.2 billion increase in imports, largely from Japan, Canada, and the EC.

The solid international performance of this industry when the decade began has seriously eroded. Japanese firms have been able to gain substantial footholds in areas formerly the exclusive preserve of U.S. exporters. Debt-ridden Latin America, the second most important U.S. market for this equipment, has drastically scaled back plans for major mining investment projects.

Synthetic Resins; Rubber and Plastics Materials (Sched. A/E 58). The shrinkage in the trade surplus in this category, from $2.5 billion in 1984 to $2.1 billion in 1985, is a continuation of a steady downward trend since 1980. Exports have stagnated at about $4 billion, while imports have surged at an average annual rate of 30.3 percent in 1980-85.

Growth in demand for plastics materials remains strong as plastics displace more conventional materials, particularly in packaging and containers. But the basic problem for the U.S. industry is the favorable petroleum feedstocks costs enjoyed by expanding production facilities in the Middle East, Canada, Mexico, and other oil-exporting countries. These producers are rapidly entering downstream plastics product markets.

U.S. producers and exporters of synthetic rubber are facing reduced demand from the auto industry, the largest end-user, with the advent of long-lasting radial tires and smaller tire and other rubber auto components. Also, imports of synthetic rubber, from Canada, Mexico, Japan, and Western Europe have risen substantially in recent years, largely because of enhanced foreign price competitiveness due to the strong dollar.

[7] References to "Sched. A/E" refer to the Bureau of the Census merchandise trade classifications A (imports) and E (exports) and the 2-digit class numbers covered herein.

The Five Largest Manufactures Trade Deficits

Road Vehicles (Sched. A/E 78). Road vehicles and parts trade—12 percent of U.S. manufactures exports, 22 percent of manufactures imports—contributed $39.8 billion in 1985 to the U.S. trade deficit, more than any other item except oil. Despite slower U.S. economic growth, imports of passenger cars rose as rapidly in 1985 as in 1984, 25 percent per year by value. The number of passenger car imports rose by 838,000 in 1985 compared to an increase of 421,000 in 1984. Japan supplied 57 percent of the 4.4 million cars imported in 1985, Canada 26 percent, and Germany 11 percent.

Road vehicle imports—81 percent finished vehicles and 19 percent parts—grew at an average annual rate of 23.1 percent from 1980 to 1985. Substantial foreign cost advantages, dollar appreciation, and increased foreign sourcing of parts production played major roles in this import growth. The gap between U.S. and foreign labor costs is particularly wide in the auto industry. Japan is thought to have had an average $1,000-$1,500 cost advantage per vehicle at the end of 1985 and, therefore, the flexibility to reduce yen export prices to offset the recent yen appreciation. However, existing Japanese restraints on exports to the United States reduce the incentive to lower those yen prices. A 25 percent tariff on Japanese trucks has not kept them out of the U.S. market. Japanese and European automakers also have hard-to-dispel reputations for quality and style. Some non-traditional suppliers—South Korea and Yugoslavia—are becoming new factors in the U.S. market.

The growth in U.S. road vehicle exports, up sharply in 1984 and 1985, is misleading. Over 55 percent of road vehicle exports are parts and components, 65 percent of which go to Canada, much of which returns to the United States in assembled components or finished vehicles.

Apparel Articles and Accessories (Sched. A/E 84). The apparel trade deficit—at $15.3 billion in 1985—was second only to the road vehicles deficit. The East Asian NICs—the number one supplier of labor-intensive apparel imports—have a clear labor cost advantage, with hourly pay levels in Taiwan and South Korea recently estimated at no more than 15 percent of U.S. levels.

U.S. bilateral quotas negotiated with some countries under the Multi-Fiber Arrangement encouraged an expansion in the number of countries exporting to the United States and an upscaling and diversification of their shipments. Dollar appreciation may have accounted for some of the increased apparel imports, particularly from the EC, but not for a significant share of the apparel deficit growth.

Telecommunications and Sound Reproducing Equipment (Sched. A/E 76). Some of the consumer items in this group, such as VCRs, are no longer produced in the United States. Manufacturing of these products has largely moved to Japan, the Asian NICs, and, increasingly, Latin America. The trade deficit for this product group—$14.4 billion in 1985—is large, though growth slowed somewhat as import markets for some consumer items approached saturation.

The most important export market for these items is Latin America (largely Mexico); but U.S. export increases have been largely shipments of components for assembly, frequently for shipment back to the United States.

The United States has remained price competitive globally in higher-technology telecommunications equipment for non-consumer use, even as the dollar has risen. But barriers in Japanese and EC markets make export expansion there difficult, while deregulation of the U.S. telecommunications market—probably more than the dollar appreciation—facilitated entry of Japanese and EC suppliers into the U.S. market.

Miscellaneous Consumer Manufactures (Sched. A/E 89). While exports have declined at an average annual 1980-85 rate of 3.8 percent, imports of toys and games, rubber and plastic articles, artworks, jewelry, sound recordings, and sporting goods—one-third of which comes from the East Asian NICs—have increased at an average yearly rate of 17.1 percent. A substantial portion of this import growth is due to the movement of manufacturing facilities to offshore locations. Nearly all of the major American doll and toy producers operate production facilities in Hong Kong, South Korea, or Taiwan.

Current trends in U.S. demographics and consumer tastes have created a U.S. growth market for toys, sporting goods, and other leisure products. In addition to major foreign labor cost advantages, overseas producers are now well-attuned to shifting American consumer tastes and preferences. U.S. producers are now often less able to compete on the basis of quality or style differences.

Iron and Steel (Sched. A/E 67). U.S. steel exports have historically been low. Import growth averaging 7.5 percent per year for 1980-85 has been the major factor behind rising steel deficits. Import growth through 1990 will likely be moderated by negotiated bilateral trade agreements, limiting future growth in the steel trade deficit which, in fact, already declined by about $500 million in 1985.

Dollar appreciation has hurt the competitiveness of the U.S. steel industry significantly. Some estimates show that, at 1980 exchange rates, the cost advantage of all but the most competitive foreign producers, like South Korea, would nearly disappear. In addition to the exchange rate, U.S. producers face other major obstacles: substantial world excess steelmaking capacity; government subsidies aiding foreign price competitiveness; and quality advantages in basic steel products benefiting some producers like Japan and South Korea. Foreign quality and productivity advantages are being rapidly overcome by U.S. producers.

4

REGIONAL AND COUNTRY MERCHANDISE TRADE PERFORMANCE

Chapter 2 emphasized the dominant role of manufactures trade, both in the growth of U.S. trade deficits and in determining future U.S. trade performance. This chapter provides brief descriptions of total merchandise trade with important regions and countries, identifying the extent that overall performance is driven by manufactures trade. This country/regional analysis provides insights on recent performance and future prospects in total trade, with special emphasis on manufactures trade.

REGIONAL PATTERNS OF U.S. TRADE

Total Trade

In 1985 the United States had at least some trade with nearly every country in the world. Ten key trading partners, however, accounted for two-thirds of total U.S. merchandise trade (Table 4.1).

Canada in 1985 continued its long-standing position as the largest U.S. trading partner. U.S.-Canadian

Table 4.1

Ten Top U.S. Trading Partners in 1985
(Domestic & foreign exports, f.a.s.; General imports, c.i.f.)
(Values in billion dollars)

Exports				Imports			
Country	1984	1985	Percent of 1985 exports	Country	1984	1985	Percent of 1985 imports
Canada	$46,524	$47,251	22.2	Japan	$60,371	$70,380	20.0
Japan	23,575	22,631	10.6	Canada	66,911	69,427	19.2
Mexico	11,992	13,635	6.4	West Germany	17,810	21,232	5.9
United Kingdom	12,210	11,273	5.3	Mexico	18,267	19,392	5.4
West Germany	9,084	9,050	4.2	Taiwan	16,088	17,761	4.9
Netherlands	7,554	7,269	3.4	United Kingdom	15,044	15,573	4.3
France	6,037	8,096	2.9	South Korea	10,027	10,713	3.0
South Korea	5,983	5,956	2.8	Italy	8,054	10,381	2.9
Australia	4,793	5,441	2.6	France	8,516	9,959	2.8
Belgium/Luxembourg	5,301	4,918	2.3	Hong Kong	8,899	8,994	2.5
			62.7				70.9

trade interdependence is of major importance to both countries. One-fifth of U.S. trade is with Canada; nearly three-fourths of Canada's trade is with the United States. Japan continued in 1985 to rank second in total U.S. trade and for the first time became the leading source of U.S. imports, topping Canada by 4 percent.

U.S. trade with Japan produced the largest bilateral deficit—$49.7 billion—far exceeding the $22.2 billion bilateral deficit with Canada (Figure 4.1). Moreover, the deficit with Japan increased by more than one-third in 1985, a far greater increase than with any other trading partner (Figure 4.2).

Manufactures Trade

U.S. manufactures trade is even more highly concentrated than total trade, with the top ten trading partners accounting for 73 percent of total U.S. manufactures trade. Canada took 26 percent of U.S. manufactures exports in 1985 and provided 19 percent of manufactures imports (Figures 4.3 and 4.4). Japan provided 27 percent of U.S. manufactures imports, but took only 8 percent of U.S. exports of these goods.

Figure 4.1

LARGEST SURPLUS AND DEFICIT BILATERAL U.S. TRADE BALANCES, 1985

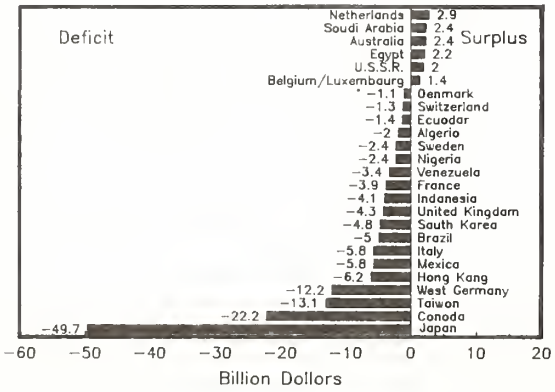


Figure 4.2

LARGEST CHANGES IN U.S. BILATERAL TRADE BALANCES, 1984 – 1985

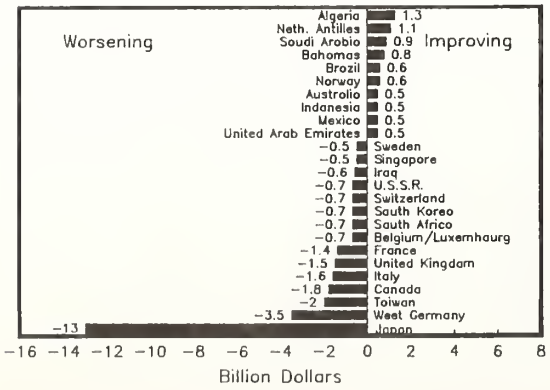


Figure 4.3

SHARES OF U.S. MANUFACTURES EXPORTS BY DESTINATIONS, 1981 AND 1985 (Percent of Total)

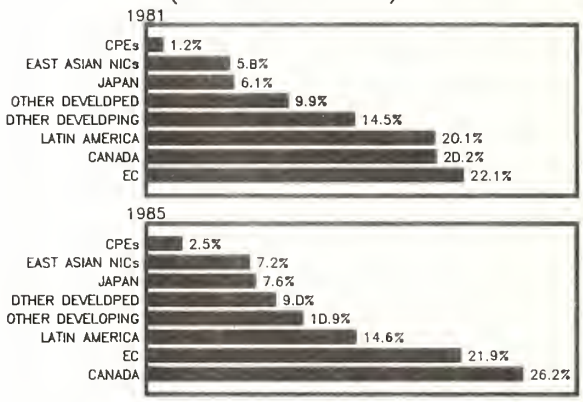
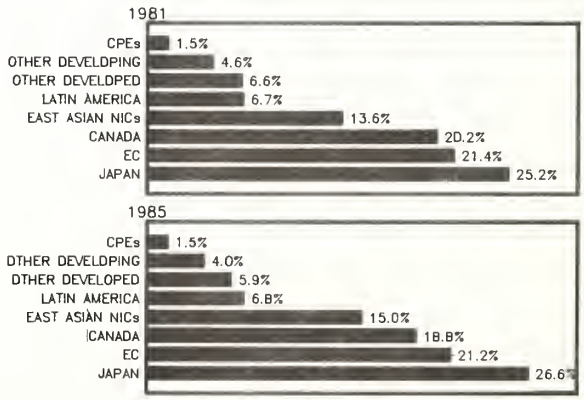


Figure 4.4

SHARES OF U.S. MANUFACTURES IMPORTS, BY ORIGIN, 1981 AND 1985 (Percent of Total)



Important changes are occurring in the geography of U.S. manufactures trading patterns. In recent years, the relative roles of the European Community and Latin America have declined, while Japan and other Pacific-rim countries have become more important. Japan is by far the largest supplier to the United States of manufactured goods, but the roles of other Asian countries also are large and growing rapidly. Indeed, in 1985, total U.S. manufactures imports from the four East-Asian NICs reached nearly three-fourths of those from the EC-10. These shifts in manufactures trade flows reflect several long-term trends (e.g., the worsened Latin American debt problem, the increasing manufacturing abilities and export competitiveness of Asian countries and other LDCs) that have important implications for future U.S. trade performance.

The United States runs large bilateral manufactures imbalances with its major trading partners (Figure 4.5), but by far the largest is with Japan.

The total manufactures trade deficit enlarged by $24 billion in 1985. The largest increase was with Japan, $12 billion over the 1984 level (Figure 4.6). Balances also worsened significantly with West Germany and other European Community trading partners.

Figure 4.5

LARGEST U.S. SURPLUS AND DEFICIT MANUFACTURES BILATERAL BALANCES, 1985

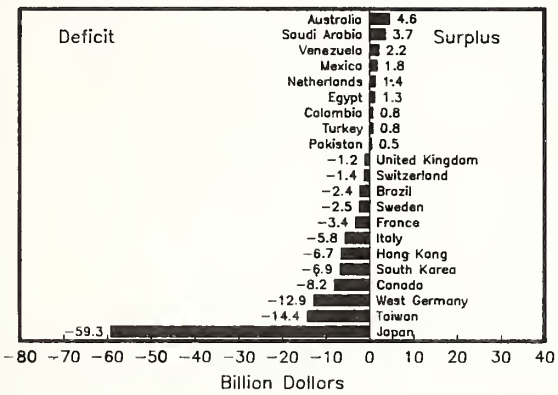
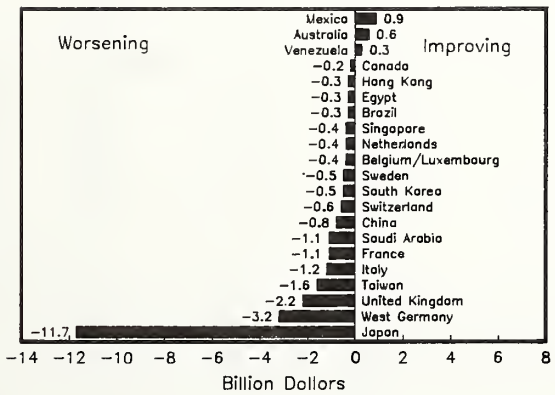


Figure 4.6

LARGEST CHANGES IN U.S. MANUFACTURES BILATERAL BALANCES, 1984–85



U.S.-JAPAN TRADE

Total Trade

U.S.-Japan economic interdependence is very large and growing. Japanese economic growth in 1985 continued to rely heavily on exports to the United States, which took 37 percent of Japan's total exports. Trade with the United States provided Japan with 86 percent of its total merchandise trade surplus in 1985.

The United States in 1985 continued to be Japan's largest supplier, providing 20 percent of Japan's imports. The U.S. share equalled that in 1984 and was up from 18 percent in 1981. Japan's share of U.S. imports rose in 1985 to 20 percent, up from 15 percent in 1981.

The U.S. deficit on trade with Japan reached a record $50 billion in 1985, a 35 percent rise over the 1984 deficit (Figure 4.7). The growth reflected both a 20 percent increase in U.S. imports and a 4 percent decrease in U.S. exports to Japan.

U.S. trade with Japan is very asymmetrical in product composition. About one-half of U.S. exports to Japan is manufactured goods; the remainder is largely agricultural goods and primary commodities for which demand grows more slowly (Figure 4.8). By contrast, virtually all U.S. imports from Japan are manufactured goods.

Figure 4.7

U.S. – JAPAN TRADE, 1975–85

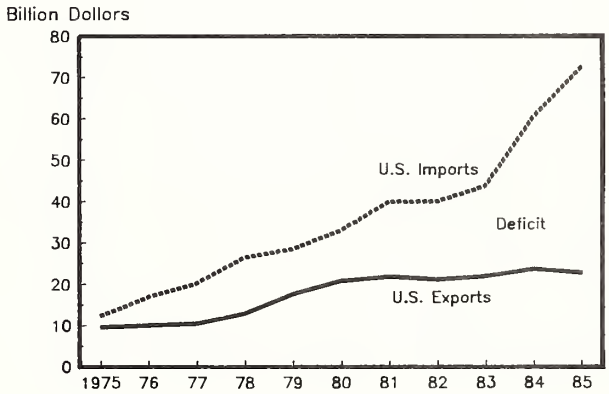
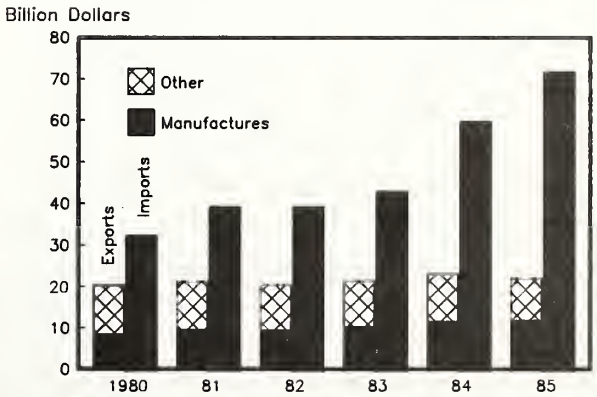


Figure 4.8

U.S. TRADE WITH JAPAN, 1980–85 (Manufactured & Other Goods)



Manufactures Trade

The U.S. deficit on manufactures trade with Japan reached $59 billion in 1985, a $12 billion (25 percent) enlargement over 1984. Large increases in U.S. imports

occurred in most major items, particularly automotive and high-tech products (Table 4.2). U.S. imports of Japanese autos rose by 31 percent in total value and 30 percent in number in response to Japan's relaxation of its voluntary quotas on auto exports to the United States for the Japanese fiscal year ending March 31,

Table 4.2

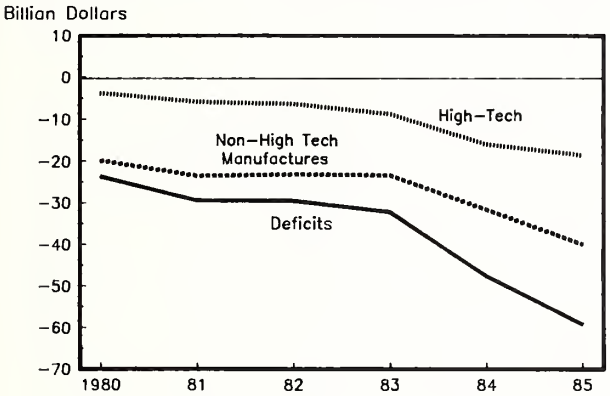
U.S.-Japan Trade in Selected Commodities, 1984-85
(Millions of dollars)

	1984	1985	1984-85 Change Value	1984-85 Change Percent
U.S. Imports, Total (general c.i.f)	**$60,371**	**$72,380**	**$12,009**	**19.9**
Manufactures, total	59,713	71,628	11,915	20.0
Autos	13,672	17,952	4,279	31.3
Phonographs, TVs & sound recording equipment	3,839	5,368	1,529	39.8
Telecommunications equipment	3,329	3,767	438	13.2
Special purpose motor vehicles	2,572	3,718	1,146	44.6
Parts for office & ADP machines	1,872	2,046	174	9.3
Parts for motor vehicles	1,610	2,031	422	26.2
ADP machines	1,961	1,987	26	1.3
Office machines	1,621	1,810	189	11.6
Electronic components & parts	2,269	1,594	-675	-29.7
Iron & steel plates & sheets	1,739	1,564	-175	-10.1
Radios	1,251	1,562	311	24.9
Musical instruments & recording media	786	1,130	344	43.8
Motorcycles	848	1,072	225	26.5
Metal-working machine tools	2,826	1,044	218	26.4
U.S. Exports, Total (domestic & foreign, f.a.s.)	**23,575**	**22,631**	**-944**	**-4.0**
Corn	1,999	1,305	-694	-34.7
Soybeans & other oilseeds	1,191	953	-238	-20.0
Coal	866	769	-97	-11.2
Wood logs, poles & posts	643	684	39	6.1
Refined petroleum products	662	613	51	9.1
Cotton	611	373	-238	-39.0
Manufactures, total	12,126	12,363	237	2.0
Aircraft & equipment	1,080	1,487	407	37.7
ADP machines	595	695	100	16.8
Parts for office machines	587	692	105	17.9
Organic chemicals & products	603	609	9	1.0
U.S. Imports, Total (general c.i.f.)	**$39,135**	**$41,880**	**$23,675**	**11.4**
Refined petroleum products	257	529	272	105.8
Manufactures, total	38,058	40,487	2,429	6.4
Footwear	2,705	3,164	459	17.0
Toys & sporting goods	2,297	2,597	300	13.7
Outerwear apparel	2,302	2,511	97	4.2
Sweaters	2,062	2,399	337	16.3
Telecommunications equipment	1,789	1,792	3	0.2
Parts of office & ADP machines	1,823	1,627	-197	-10.8
Electronic components	1,999	1,579	-420	-21.0
Radios	1,137	1,122	-15	-1.3
Wearing apparel of leather, fur, etc	1,108	1,008	-100	-9.0
Luggage & handbags	1,015	1,002	-13	-1.3
Furniture & parts	735	958	223	30.3
U.S. Exports, Total (domestic & foreign, f.a.s.)	**17,723**	**16,918**	**-805**	**-4.5**
Corn	753	585	-168	-22.3
Refined petroleum products	548	582	34	6.2
Soybeans & other oilseeds	580	508	-71	-12.2
Cotton	705	501	-204	-28.9
Manufactures, total	12,060	11,682	-378	-3.1
Aircraft & equipment	1,296	1,487	191	14.7
Electronic components	1,447	1,263	-185	-12.8
Parts for office & ADP machines	851	838	-13	-1.5
Organic chemicals & products	473	539	66	14.0
ADP machines	448	454	6	1.3
Measuring & checking instruments	463	442	-21	-4.5
Telecommunications equipment, TVs, radios & parts	428	431	4	0.9

1986. Growing production of Japanese autos in the United States also contributed to increased U.S. imports of Japanese automotive parts and components.

Trade in high-tech products is a major factor in the worsening U.S.-Japan trade deficit. In 1985 U.S. high-tech goods imports grew by 13 percent to $25.2 billion, accounting for 35 percent of total U.S. imports from Japan and providing 37 percent of the total U.S. manufactures deficit (Figure 4.9). (For a more detailed analysis of U.S.-Japan trade, see the special topic report "Growing U.S.-Japan Trade Imbalance" in Chapter 11.)

Figure 4.9
U.S. TRADE DEFICITS WITH JAPAN IN HIGH-TECH AND OTHER MANUFACTURES, 1980-85



EAST ASIAN NICs

Total Trade

U.S. trade and economic interdependence with four East Asian NICs—Hong Kong, South Korea, Singapore and Taiwan—continues to increase. Their share of U.S. goods imports—12 percent in 1985—is very large relative to the size of their economies. Per dollar of their GNP, East Asian NICs export to the United States three times more than the EC-10.

In 1985 U.S. imports from these countries grew 7 percent and exports to them declined by 5 percent, raising the U.S. deficit with them to $25 billion (Figure 4.10).

The product composition of U.S. trade with the East Asian NICs is much like that with Japan. U.S. imports are almost solely manufactures, while only about one-half of the much smaller U.S. export total is manufactures.

Manufactures Trade

A rapidly rising portion of U.S. imports from these countries is high-tech or other products that in the past have been produced only in advanced industrialized countries. In 1985 high-tech imports from the East Asian NICs remained at $11 billion, the same as 1984, and one-fifth of the total imports from these countries. U.S. high-tech imports from them were more than twice those from Canada and equal to those from the EC-10 (Figure 4.11). Moreover, the first imports of autos from South Korea occurred at the end of 1985, evidencing a growing ability to compete internationally in large-scale, capital-intensive products.

Figure 4.10
U.S. TRADE WITH EAST ASIAN NICs, 1980-85 (Manufactured & Other Goods)

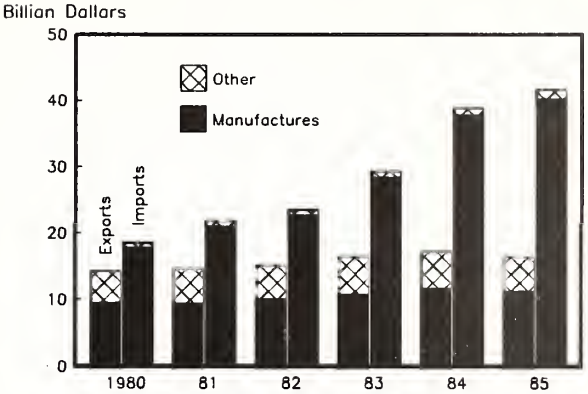
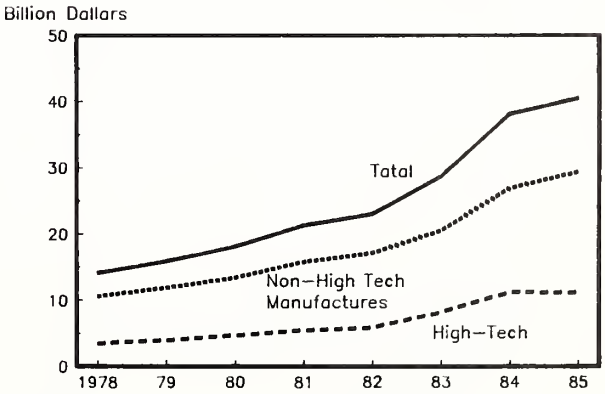


Figure 4.11
U.S. IMPORTS FROM EAST ASIAN NICs, HIGH-TECH & NON-HIGH TECH MANUFACTURES, 1978-85



Major U.S. exports to the East Asian NICs include parts and components of office machines, computers and other electronic equipment (Table 4.3). In 1985 nearly $1.6 billion of parts and components went to these countries for assembly into more finished products, most of which is reexported to the United States and other markets . These two-way movements reflect the growing tendency of U.S. manufacturers to conduct labor-intensive production and assembly operations abroad.

CANADA

Total Trade

The U.S.-Canada trade relationship is the largest in the world and is producing a growing economic interdependency. Over 75 percent of Canada's total goods exports go to the United States and about 22 percent of

Table 4.3

U.S.-East Asian NICs Trade in Selected Commodities, 1984-85
(Millions of dollars)

	1984	1985	1984-85 Change Value	1984-85 Change Percent
U.S. Imports, Total (general c.i.f.)	**$39,135**	**$41,880**	**$23,675**	**11.4**
Refined petroleum products	257	529	272	105.8
Manufactures, total	38,058	40,487	2,429	6.4
Footwear	2,705	3,164	459	17.0
Toys & sporting goods	2,297	2,597	300	13.7
Outerwear apparel	2,302	2,511	97	4.2
Sweaters	2,062	2,399	337	16.3
Telecommunications equip.	1,789	1,792	3	0.2
Parts of office & ADP machines	1,823	1,627	-197	-10.8
Electronic components	1,999	1,579	-420	-21.0
Radios	1,137	1,122	-15	-1.3
Wearing apparel of leather, fur, etc.	1,108	1,008	-100	-9.0
Luggage & handbags	1,015	1,002	-13	-1.3
Furniture & parts	735	958	223	30.3
U.S. Exports, Total (domestic & foreign, f.a.s.)	**17,723**	**16,918**	**-805**	**-4.5**
Corn	753	585	-168	-22.3
Refined petroleum products	548	582	34	-6.2
Soybeans & other oilseeds	580	508	-71	-12.2
Cotton	705	501	-204	-28.9
Manufactures, total	12,060	11,682	-378	-3.1
Aircraft & equip.	1,296	1,487	191	14.7
Electronic components	1,447	1,263	-185	-12.8
Parts for office & ADP machines	851	838	-13	-1.5
Organic chemicals & products	473	539	66	14.0
ADP machines	448	454	6	1.3
Measuring & checking instruments	463	442	-21	-4.5
Telecommunications equip. TVs, radios & parts	428	431	4	0.9

U.S. exports go to Canada. Canada remained in 1985 the largest market for U.S. exports, but slipped to second place behind Japan as a source of U.S. imports.

Trade with Canada produced the second largest bilateral U.S. deficit in 1985—$22 billion. The trade is relatively symmetrical in composition. About 73 percent of U.S. imports and about 90 percent of U.S. exports are manufactured goods.

Manufactures Trade

Manufactures trade with Canada produced a deficit of $8.2 billion in 1985 (Figure 4.12). The largest sector is items traded under the current U.S.-Canada Automotive Products Free-Trade Agreement. Automotive products account for over one-third of U.S.-Canada trade (Figure 4.13).

Well above 80 percent of Canada's manufactures exports and a very large portion of its total manufactures output go to the United States. Over one-fourth of all U.S. manufactures exports go to Canada. The United States is also a major market for Canadian crude materials and fuels (Table 4.4). The high degree of integration of the U.S. and Canadian manufacturing sectors has contributed to renewed interest in negotiating a broader free-trade agreement covering more than the automotive sector. (A more detailed examination of U.S.-Canada trade is included in a Chapter 11 special topic.)

Figure 4.12

U.S. TRADE WITH CANADA, 1980–85
(Manufactured & Other Goods)

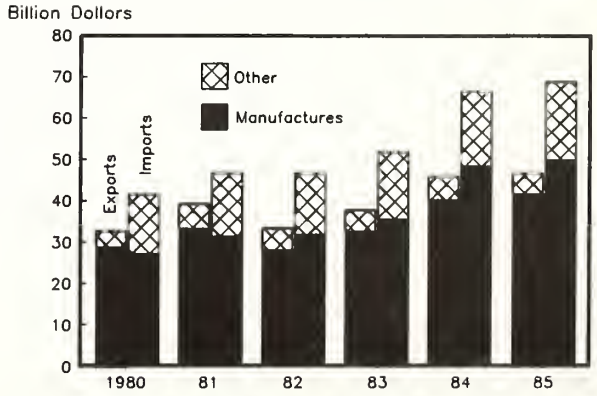
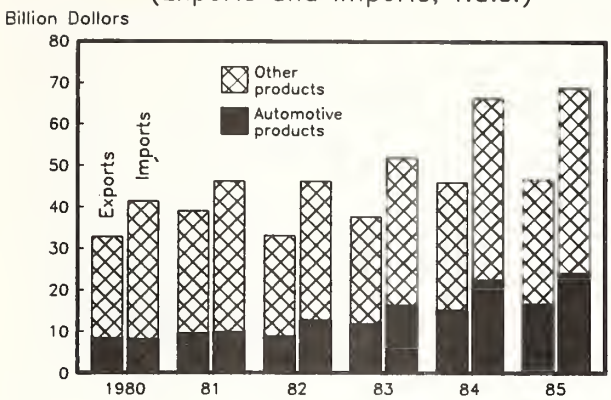


Figure 4.13

U.S.–CANADIAN TRADE IN AUTOMOTIVE AND OTHER PRODUCTS, 1980–85
(Exports and Imports, f.a.s.)



LATIN AMERICA

Total Trade

Latin America (Central and South America and the Caribbean) is highly dependent on the U.S. market for export earnings to service international debts. In 1984 and 1985 the United States took well over one-half of Latin America's exports to countries outside the region. Latin America provided 14 percent of U.S. imports in 1985, about the same as in 1981. About 15 percent of total U.S. exports went to Latin America in 1985, down somewhat from the 1981 share of 18 percent.

In 1985 the U.S. deficit on trade with Latin America was $18 billion, a slight improvement from the $20 billion 1984 level (Figure 4.14). Mexico accounts for about 40 percent of U.S. trade with Latin America and a narrowing of the U.S. deficit with Mexico in 1985 was responsible for most of the modest 1985 improvement with Latin America.

Deteriorating balances on trade with Latin America have made a significant contribution to the growth in the overall U.S. trade deficit. Since 1981, the U.S. balance with Latin America slipped by $19 billion, 18 percent of the total deterioration. In large part this change reflects major cutbacks in Latin American imports, particularly by Mexico and Brazil. These import cutbacks and export drives were an outgrowth of debt-servicing difficulties that reached crisis proportions in 1982.

The composition of U.S. trade with Latin America is changing. In 1980 about 23 percent of U.S. imports

Table 4.4

U.S.-Canada Trade in Selected Commodities, 1984-85
(Millions of dollars)

			1984-85 Change	
	1984	1985	Value	Percent
U.S. Imports, Total (general c.i.f)	**$66,911**	**$69,427**	**$2,516**	**3.8**
Crude petroleum	3,528	4,456	928	26.3
Natural gas	4,186	3,793	-393	-9.4
Lumber	2,777	3,008	231	8.3
Refined petroleum products	1,415	1,680	265	18.7
Pulp & waste paper	1,706	1,413	-293	-17.2
Manufactures, total	48,796	50,632	1,836	3.8
Autos	10,150	11,216	1,066	10.5
Parts of motor vehicles	4,477	4,902	425	9.5
Paper & paperboard	4,046	4,306	260	6.4
Special purpose motor vehicles	3,672	3,594	-78	-2.1
Nonmonetary gold	1,577	1,556	-21	-1.3
Internal combustion piston engines	1,391	1,276	-115	-8.3
Aircraft	894	1,029	135	15.1
Aluminum	1,082	900	-182	-16.8
Furniture & parts	737	897	160	21.7
U.S. Exports, Total (domestic & foreign, f.a.s.)	**46,525**	**47,252**	**727**	**1.6**
Coal	1,061	824	-237	-22.3
Manufactures, total	40,856	42,443	1,587	3.9
Parts of motor vehicles	7,144	7,141	-3	-0.1
Autos	4,576	5,750	1,174	25.7
Internal combustion piston engines	1,966	2,068	102	5.2
Trucks & special purpose motor vehicles	1,100	1,596	496	45.1
Parts of office & ADP machines	1,207	1,214	107	8.9
ADP machines	1,064	1,113	49	4.6
Nonmonetary gold	1,020	891	-129	-12.6
Electrical machinery & apparatus, nspf	792	781	-11	-1.4
Measuring, checking instruments	771	769	-2	-0.3
Aircraft	837	646	-191	-22.8

Figure 4.14

U.S. TRADE WITH LATIN AMERICA, 1978–85

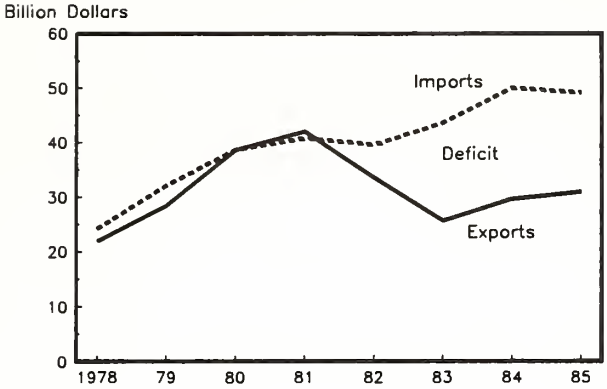
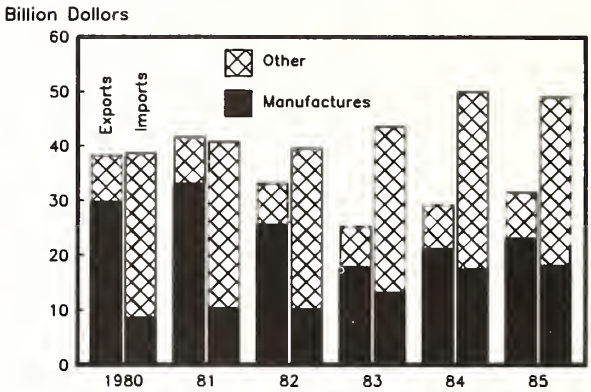


Figure 4.15

U.S. TRADE WITH LATIN AMERICA, 1980–85
(Manufactured & Other Goods)



were manufactures; by 1985 the share had risen to 37 percent (Table 4.5). By contrast 78 percent of 1980 U.S. exports to the region were manufactures; by 1985 the share had declined slightly to 76 percent.

Manufactures Trade

The financial difficulties of Latin American debtor countries have put particular pressures on their manufactures trade, forcing import cuts and motivating expanded exports (Figure 4.15). The effects on the United States have been particularly significant. The U.S. manufactures trade surplus shrank from 1980 by $21.4 billion to $5.2 billion in 1985, a $15 billion deterioration.

Of the $18.4 billion of U.S. manufactures imports from the region in 1985, $9.1 billion (49 percent) were from Mexico, $4.7 billion (25 percent) from Brazil. A significant portion of the imports from Mexico were re-imports of U.S. exports to Mexico for assembly or further processing.

Table 4.5

U.S.-Latin America Trade in Selected Commodities, 1984-85
(Millions of dollars)

			1984-85 Change	
	1984	1985	Value	Percent
U.S. Imports, Total (general c.i.f.)	**$50,044**	**$49,087**	**$-957**	**-3.0**
Crude petroleum	11,360	12,240	880	7.7
Refined petroleum products	9,416	7,070	-2,346	-24.9
Coffee	2,533	2,657	123	4.9
Fruits & nuts	2,237	2,204	-23	-1.0
Shellfish	1,059	948	-111	-10.5
Sugar, syrups, molasses & honey	1,006	788	-218	-21.7
Manufactures, total	17,686	18,414	728	4.1
Internal combustion piston engines	812	1,124	312	38.4
Footwear	1,029	1,033	4	0.4
Electrical wiring & other distribution equipment	490	682	192	39.2
U.S. Exports, Total (domestic & foreign, f.a.s.)	**29,681**	**31,013**	**1,332**	**4.5**
Refined petroleum products	926	1,022	97	10.5
Wheat	1,112	844	-268	-24.1
Soybeans & other oilseeds	815	615	-200	-24.5
Corn	707	434	-273	-38.6
Manufactures, total	21,690	23,585	1,985	8.7
Parts for motor vehicles	1,549	1,903	354	22.9
Organic chemicals	1,107	1,032	-76	-6.9
Civil engineering & contractors equipment	751	887	136	18.1
Aircraft	499	856	357	71.5
Telecommunications equipment	736	781	45	6.1
Internal combustion piston engines	719	771	52	7.2
Parts for office & ADP machines	627	741	114	18.2
Synthetic resins, rubber & plastics	731	720	-11	-1.5

EUROPEAN COMMUNITY (EC-10)

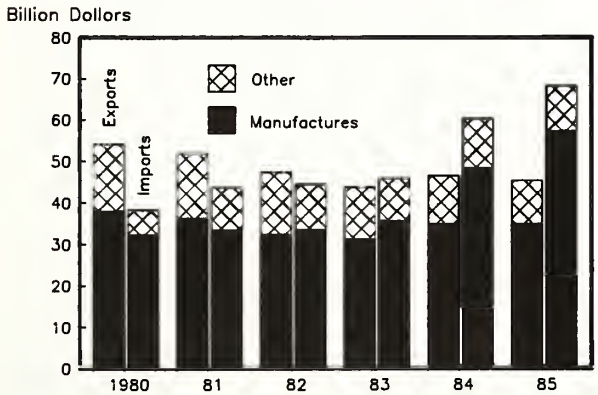
Total Trade

U.S.-European Community merchandise trade flows are very large but are declining somewhat in relative importance. In 1985, 21 percent of U.S. exports went to the EC-10, down from 25 percent in 1980; 19 percent of U.S. imports in 1985 were from the EC-10, up from 15 percent in 1980. Viewed from the EC-10 perspective, 10 percent of the group's 1985 exports went to the United States compared to 9 percent in 1981; 8 percent of 1985 imports were from the United States compared to 9 percent in 1981.

The swing in the U.S.-EC-10 trade balance from large U.S. surpluses to large U.S. deficits has, however, played an important role in stimulating economic growth in the region. The U.S. balance with the group has deteriorated markedly, totalling $39 billion over the 1980-85 period, $9 billion in 1985 alone.

In 1985 the U.S. merchandise trade deficit with the EC-10 grew from $13 billion to $22 billion, about three-fourths as much as the 1985 growth with Japan. Deficit growth reflected a 13 percent rise in U.S. imports and a 3 percent decline in U.S. exports (Figure 4.16).

Figure 4.16
U.S. TRADE WITH EC-10, 1980-85
(Manufactured & Other Goods)



Nearly one-third of the deficit growth with the region was in U.S.-West German trade. Much of the stagnation in U.S. exports to the EC-10 can be attributed to slow European economic growth and large appreciation of the dollar against most European currencies between mid-1980 and early 1985.

Over 80 percent of U.S. trade with the EC-10 is manufactures (Table 4.6). The portion of agricultural goods in U.S. exports to the region has declined from 17 percent in 1980 to 11 percent in 1985, reflecting mainly large decreases in the volume of those exports to the EC.

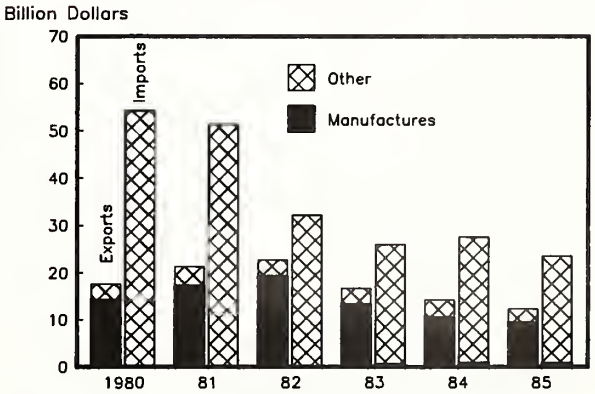
Manufactures Trade

Worsening of the U.S.-EC trade deficit in 1985 was almost wholly due to the rapid growth of U.S. manufactures imports. The 1985 manufactures trade deficit with the region was $22 billion, a $28 billion swing from the 1980 U.S. surplus of $6 billion. A large factor in the 1985 deficit increase was the $2 billion growth in U.S. motor vehicle imports. Together, the EC-10 and other Western European countries (principally Sweden) provided 24 percent of total 1985 U.S. automobile imports by value, nearly as much as from Canada.

OPEC

The U.S. trade deficit with the 13 OPEC countries shrank from $14 billion in 1984 to $12 billion in 1985 (Figure 4.17). Imports from the OPEC countries are mainly crude oil and petroleum products, while most U.S. exports to these countries are manufactures (Table 4.7). In recent years the U.S. deficit with these countries has declined from the 1980 peak of $37 billion, reflecting declines both in the volume and price of oil imports. Lower oil prices have markedly reduced OPEC income and purchasing power. OPEC imports of U.S. manufactures peaked at $19 billion in 1982, but dwindling OPEC surpluses and other factors reduced 1985 U.S. manufactures exports to these countries to $10 billion, a 50 percent decline.

Figure 4.17
U.S. TRADE WITH OPEC, 1980-85
(Manufactured & Other Goods)



CENTRALLY PLANNED ECONOMIES (CPEs)

The CPEs—the Soviet Union, the six countries of Eastern Europe and the People's Republic of China—account for only a small share of total U.S. trade (3.3 percent of 1985 U.S. exports, 1.8 percent of imports). The group as a whole provided small U.S. trade surpluses—$750 million in 1985, but down from $1.5 billion in 1984 (Table 4.8).

Most of the trade is with the USSR and China. In 1985 the surplus with the Soviet Union declined to

Table 4.6

U.S.-EC-10 Trade in Selected Commodities, 1984-85
(Millions of dollars)

	1984	1985	1984-85 Change Value	1984-85 Change Percent
U.S. Imports, Total (general c.i.f.)	**$60,266**	**$68,246**	**$7,980**	**13.2**
Crude petroleum	4,149	3,035	-1,114	-26.8
Beverages, alcoholic	2,310	2,449	139	6.0
Refined petroleum products	2,497	2,307	-190	-7.6
Manufactures, total	48,432	57,259	8,827	18.2
Autos	6,040	8,060	2,020	33.4
Organic chemicals	2,379	2,518	139	5.8
Aircraft	1,647	1,977	330	20.0
Parts of motor vehicles	1,460	1,642	182	12.5
Iron & steel plates & sheets	1,182	1,398	216	18.3
Parts of internal combustion engines	877	1,215	338	38.5
Jewelry	779	1,173	394	50.6
Specialized industrial machinery	1,011	1,165	154	15.2
Footwear	988	1,124	136	13.8
Precious & semiprecious stones & pearls	1,084	1,090	6	0.6
Internal combustion engines	648	1,004	356	54.9
Furniture & parts	677	957	280	41.4
ADP machines	366	700	334	91.3
U.S. Exports, Total (domestic & foreign, f.a.s.)	**46,976**	**45,776**	**1,200**	**-2.6**
Coal	1,280	1,555	275	21.5
Soybeans & other oilseeds	2,078	1,433	-645	-31.0
Animal feedstuffs	1,195	1,034	-161	-13.5
Manufactures, total	35,477	35,539	62	0.2
Aircraft	2,599	3,356	757	29.1
Parts for office & ADP machines	3,232	3,316	84	2.6
ADP machines	3,226	3,029	-129	-6.1
Measuring & checking instruments	1,787	1,823	36	2.0
Internal combustion engines	1,608	1,634	26	1.6
Organic chemicals	1,264	1,320	55	4.4
Electronic components	1,064	1,029	-35	-3.3

Table 4.7

U.S.-OPEC Trade in Selected Commodities, 1984-85
(Millions of dollars)

	1984	1985	1984-85 Change Value	1984-85 Change Percent
U.S. Imports, Total (general c.i.f.)	**$28,062**	**$24,062**	**$4,000**	**-14.3**
Crude petroleum	16,269	13,731	-2,538	-15.6
Refined petroleum products	7,979	6,558	-1,421	-17.8
Natural rubber	544	417	-127	-23.3
Coffee	361	352	-9	-2.5
Fruits & nuts	237	310	73	30.8
Natural gas	386	204	-182	-47.2
Manufactures, total	1,405	1,435	30	2.1
U.S. Exports, Total (domestic & foreign, f.a.s.)	**14,387**	**12,487**	**-1,909**	**-13.3**
Wheat	903	642	-261	-28.9
Rice	370	258	-112	-30.3
Manufactures, total	10,727	9,612	-1,115	-10.4
Aircraft	643	888	245	38.1
Civil engineering & contractors equipment	732	638	-94	-12.8
Telecommunications equipment	378	561	183	48.4
Parts for motor vehicles	568	457	-111	-19.5
Heating & cooling equipment	355	237	-118	-33.2

$2.0 billion, but was still the largest surplus with any individual CPE country. The great majority—77 percent—of U.S. exports to the USSR were agricultural products, with 1985 manufactures exports of only $500 million, 20 percent of the total.

U.S. manufactures exports to China, however, have been expanding rapidly, reflecting in part liberalized U.S. export controls as well as an opening of the China market (Figure 4.18). Manufactures exports to China reached $3.2 billion in 1985, up from $2.0 billion in 1984. China's manufactures exports to the United States have also been increasing, however, leaving the United States with a 1985 manufactures surplus of $300 million.

CPE trade is examined in more detail in the Chapter 11 special topic "Industrialized West's Trade With Centrally Planned Economies."

Figure 4.18

U.S. TRADE WITH CENTRALLY PLANNED ECONOMIES: CHINA (MAINLAND) AND OTHER CPEs, 1980–85

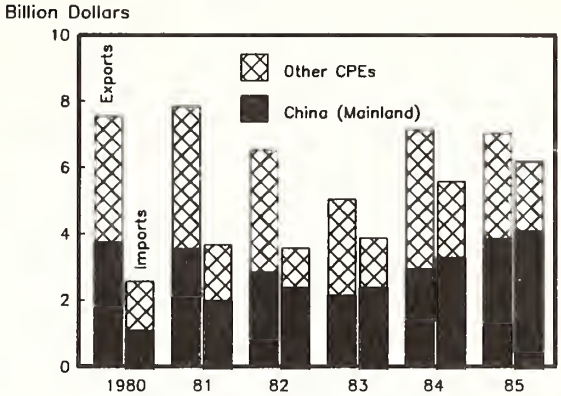


Table 4.8

U.S. Trade with Centrally Planned Economies in Selected Commodities, 1984-85 (Millions of dollars)

	1984	1985	1984-85 Change Value	1984-85 Change Percent
U.S. Imports, Total (general c.i.f.)	**$5,738**	**$6,342**	**$604**	**10.5**
Refined petroleum products	249	758	509	204.4
Crude petroleum	1,140	855	-285	-25.0
Manufactures, total	3,773	4,094	321	8.5
Outerwear apparel	657	610	-47	-7.2
Toys & sporting goods	137	292	155	113.1
Sweaters	155	225	70	45.2
Flat made-up textile articles	142	203	61	43.0
U.S. Exports, Total (domestic & foreign, f.a.s.)	**7,216**	**7,092**	**-124**	**-1.7**
Corn	1,501	1,599	99	0.7
Lumber	272	323	51	18.8
Wheat	1,756	266	-1,490	-84.9
Cotton	174	68	-106	-60.9
Soybeans & other oilseeds	177	54	-123	-69.5
Manufactures, total	10,727	9,612	-1,115	-10.4
Aircraft	114	657	543	476.3
Fertilizer	291	350	58	19.9
Civil engineering & contractors equipment	170	344	175	102.9
Measuring & checking instruments	192	294	101	52.3
Synthetic resins, rubber & plastics	239	233	-6	-2.5
ADP machines	79	159	80	101.3

5

U.S. BUSINESS SERVICES TRADE

Private sector service industries—those businesses primarily involved in providing services as opposed to goods—accounted for well over one-half (56 percent) of U.S. output in 1984, while manufacturing—the production of most goods—provided 21 percent of total output. A relatively small portion of the business services produced by the private sector is, however, bought and sold internationally.

Internationally traded business services are grouped in this report into three categories: travel and transportation, proprietary rights, and other business services (Figure 5.1).[8] Investment income (interest on loans, profit and dividend remittances from foreign affiliates to parent firms) is sometimes included in the broad category of "services" in balance of payments accounting, but is not a part of the "business services" group.

U.S. and foreign international business services trade data are generally not as comprehensive, detailed, and accurate as merchandise trade data, in large part because transactions in intangible services are more difficult to monitor than cross-border movements of goods. Indeed, business services trade valuation data are often estimates derived from samplings of receipts and payments for broad categories of services. These estimates are made primarily for balance-of-payments accounting purposes. Efforts to improve business services trade data are, however, being made. For example, the recently amended International Investment and Trade in Services Survey Act now requires the Executive Branch to collect periodic comprehensive data on U.S. services trade beyond that presently collected for balance-of-payments reporting purposes.[9]

OVERVIEW OF U.S. BUSINESS SERVICES TRADE

Business services trade has been important, but it is much smaller than merchandise trade (Figure 5.2). It is not now and is unlikely to become a critical factor in overall U.S. trade and current account performance. In recent years business services exports have been about one-fifth as large as merchandise exports; business services imports have averaged only about one-eighth as much as merchandise imports. Business services trade is also a considerably smaller factor in overall performance than international investment income, which has for many years provided substantial surpluses. (See Chapter 6 for a more detailed discussion of investment income.)

Within the business services group the large travel and transportation category tends to dominate performance. Travel and transportation in 1985 accounted for almost two-thirds of total U.S. business services exports and for almost nine-tenths of total business services imports. Proprietary rights (fees and royalties for the use of technology, etc.) provided another 19 percent of business services exports. Exports of other business

[8] The terms used in this chapter to identify types of business services generally follow those used in U.S. balance-of-payments reporting. The major exception is the category "proprietary rights", which is reported as fees and royalties in balance-of-payments reporting and represents receipts and payments for a wide variety of intellectual property and other services. The category "other business services" used herein is equivalent to other private services in U.S. balance-of-payments terminology.

[9] As of June 1986, a revised proposed Benchmark Survey on services trade by the Bureau of Economic Analysis, U.S. Department of Commerce, was awaiting Office of Management and Budget approval of a draft survey form and sample universe.

Figure 5.1

Types of Business Services in International Trade

Travel and Transportation

- Travel: Services provided to U.S. citizens traveling abroad (U.S. imports) and to foreigners visiting the United States (U.S. exports).
- Passenger Transportation: Transportation provided by foreign carriers to U.S. residents for transoceanic transportation (U.S. imports) and by U.S. carriers to foreign residents (U.S. exports).
- Shipping Transportation: Services involving freight movements and use of port facilities.

Proprietary Rights

- The use and sale of intangible property or rights (e.g., fees and royalties paid for the use of copyrights, patents, processes, technology, etc.); the provision of management, professional and technical services, research and development assessments, and other services (e.g., allocated overhead expenses).

Other Business Services

- Construction, engineering, architecture, consulting, banking and other financial services, brokerage, communications, insurance, and other miscellaneous receipts and payments.

NOTE: For more detailed descriptions of these and other types of service categories, see "U.S. International Trade and Investment in Services: Data Needs and Availability," Bureau of Economic Analysis Staff Paper 41, September 1984 (BEA-SP84-041).

Figure 5.2

U.S. MERCHANDISE AND BUSINESS SERVICES BALANCES, 1981–85 (Balance-of-Payments Basis)

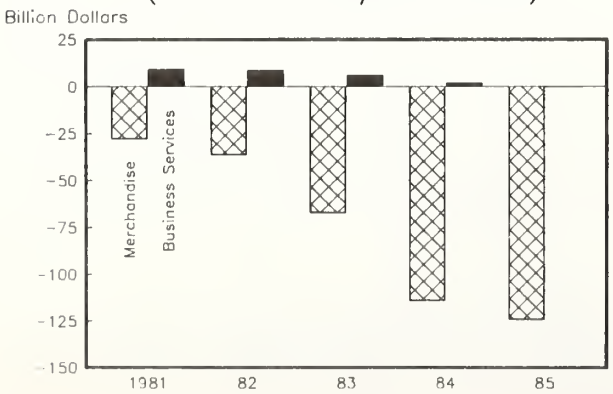
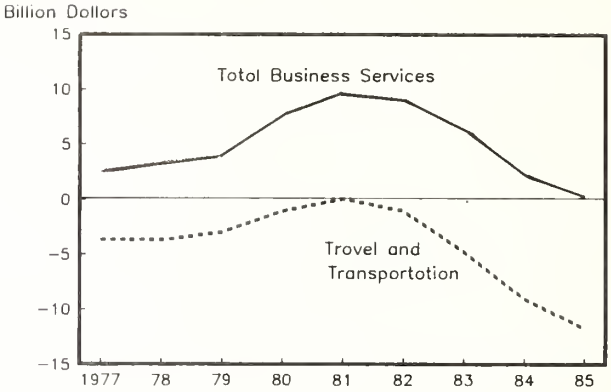


Figure 5.3

U.S. TOTAL BUSINESS SERVICES AND TRAVEL & TRANSPORTATION BALANCES, 1977–85



services were $7.6 billion, only 17 percent of total business services exports, and equivalent to less than 4 percent of U.S. merchandise trade exports.

The United States has for many years run a positive trade balance in the overall business services category, but the surplus has been declining consistently since 1981 and was only $200 million in 1985, far less than in any of the prior eight years (Figure 5.3). The decline from the record $9.6 billion surplus in 1981 was caused primarily by the very sharp deterioration in the travel and transportation balances. Slippages in this category have more than offset some increases in net receipts from transactions in proprietary rights and other business services.

The United States is often perceived as having a comparative advantage in internationally-traded private business services. But U.S. performance has been strong only in some categories of business services trade that do not produce large export receipts. The United States has been very competitive in many of the business activities included in the "other" business services category—construction, engineering, insurance, financial services, etc. The amount of trade in this category is, however, relatively small and export expansion opportunities are limited, at least in terms of the value added by U.S. exporters. More comprehensive data—that which includes more systematic coverage of advertising, accounting, legal, medical and other kinds of professional services—would probably increase the positive contribution of the other business services category to U.S. trade performance.

The United States has also traditionally registered large net receipts from transactions involving proprietary rights—fees, royalties and other receipts derived mostly from long-established relationships between U.S.-based parent firms and their affiliates abroad.

RECENT PERFORMANCE

Travel and Transportation

The travel and transportation group—travel, passenger transportation, and shipping and other trans-

portation—has typically produced U.S. deficits, especially in periods marked by a strong dollar and strong growth in the U.S. economy (Figure 5.4).

Except in 1981, the United States has experienced combined travel and transportation deficits every year since 1960. In 1985 balances in each of the subcategories—travel, passenger transportation, and shipping and other transportation—all reached new lows, producing a record combined travel and transportation deficit of $11.7 billion. The high value of the dollar in recent years has played a key role in enlarging this deficit. The strengthening dollar through early 1985 improved the price advantage of tourism services in many foreign countries, especially the major developed nations.

The recurring deficits in the travel and transportation accounts in recent years are noteworthy, since these services tend to dominate overall performance of the business services category.

Travel. Continuing the trend of recent years, travel service imports—spending abroad by U.S. tourists and business travelers—grew in 1985, reaching a record of $17.0 billion. While 1985 travel service exports—expenditures in the United States by foreign tourists and businessmen—increased for the first time since 1981, the larger increase in travel service imports resulted in a record 1985 deficit of $5.4 billion (Figure 5.5).

As in the previous three years, the major factor causing the deterioration in the U.S. travel services balance in 1985 was the continuing high dollar exchange rate, which resulted in high foreign currency costs for foreigners traveling in the United States and relatively low U.S. dollar costs for U.S. citizens traveling abroad. More than one-third of U.S. international travel receipts and payments reflect transactions with Canada and Mexico. Another large portion of U.S. travel expenditures go to Europe. The strong dollar has had especially important effects on travel between the United States and Western Europe and U.S.-Mexican travel.

Passenger Transportation. The U.S. deficit in passenger transportation services reached a record $4.4 billion in 1985, the fifth consecutive year of deficit growth (Figure 5.6). U.S. passenger transportation exports—primarily fares paid by foreign residents to U.S. airlines—have been stagnant over the last five years, while passenger transportation imports—primarily fares paid by U.S. residents to foreign airlines—have risen steadily over the period.

Figure 5.4

COMPOSITION OF U.S. TRADE IN TRAVEL AND TRANSPORTATION SERVICES, 1985

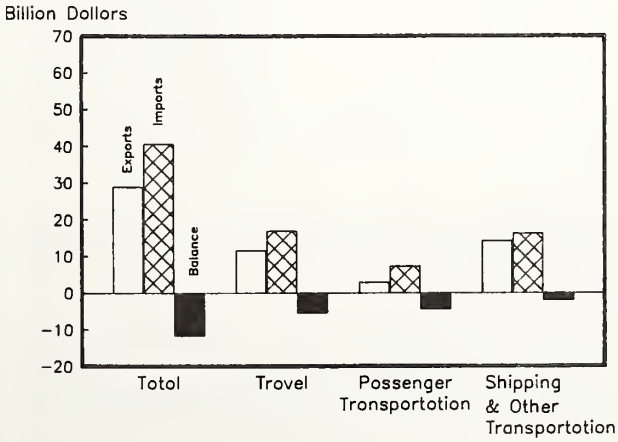


Figure 5.5

U.S. TRAVEL SERVICES EXPORTS AND IMPORTS, 1977–85

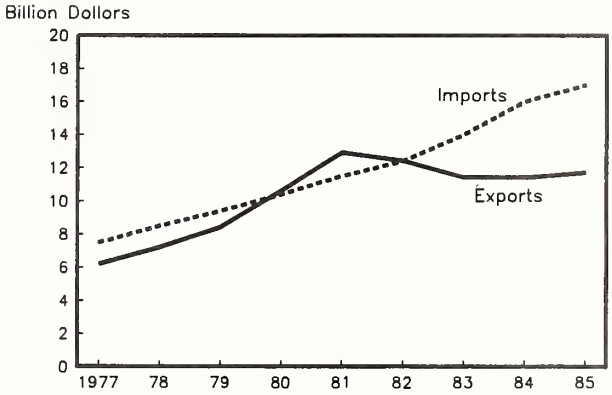
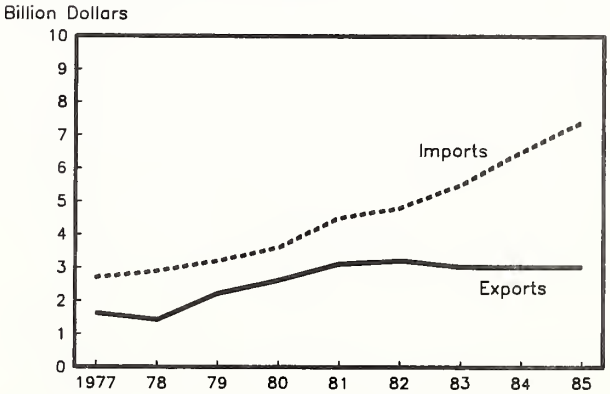


Figure 5.6

U.S. PASSENGER TRANSPORTATION EXPORTS AND IMPORTS, 1977–85



Two factors strongly affect the balance in this account: the number of U.S. versus foreign travelers and whether they select U.S. or non-U.S. carriers. Persistent and growing passenger transportation deficits reflect the larger number of U.S. residents using foreign carriers than foreign residents using U.S. carriers.

Shipping and Other Transportation. Performance in this category fluctuates in a relatively narrow range. In 1983 the U.S. earned a surplus of $0.3 billion; in 1985 the deficit was $2 billion (Figure 5.7).

Port services provided in the United States to foreign shipping companies and airlines—a U.S. export—have expanded in each of the last three years, consistent with the rapid growth in U.S. merchandise imports. Freight receipts of U.S. carriers from foreign parties, however, have stagnated in recent years as U.S. merchandise exports have lagged.

U.S. payments for shipping and other transportation have increased by 32 percent over the 1983-85 period, again largely as a result of surging U.S. goods imports. Increased freight payments to foreign carriers for both ocean and air shipping services have accounted for most of the increase. Sluggish U.S. export performance has held U.S. payments for port services abroad relatively constant in recent years.

Proprietary Rights

U.S. trade in proprietary rights—shown in U.S. balance-of-payments data as "fees and royalties' —provided the one improvement in 1985 U.S. business services trade performance. U.S. receipts from exports of proprietary rights reached a record $8.5 billion in 1985. Some 80 percent of these were receipts by U.S. multinational corporations (MNCs) of royalties and management fees from their affiliates abroad. U.S. payments for proprietary rights were only $0.2 billion, resulting in a surplus of about $8.3 billion in 1985 (Figure 5.8).

The much larger U.S. exports than imports of proprietary rights reflects the long-standing position of the United States as an exporter of technology and know-how. It also stems from both the larger stock and longer-established presence of U.S. direct investment abroad compared to foreign direct investment in the United States (FDIUS). FDIUS has grown rapidly in recent years and has passed the $175 billion mark in book value terms, equal to about 70 percent of U.S. direct investment abroad. Net payments of fees and royalties by U.S. affiliates to foreign parents have, however, remained very low. Payments of fees and royalties by U.S. affiliates to their foreign parents have been largely offset by fee and royalty receipts by U.S. affiliates from their parent firms. This indicates that foreign-owned U.S. affiliates are being compensated for substantial amounts of technology and other services sold to their parents abroad.

The continuing growth in U.S. receipts for proprietary rights since 1982 is consistent with the economic recovery of major foreign economies. The large increase in the dollar exchange rate over the 1981-85 period might have been expected to reduce the dollar value of these net receipts to the United States. The fact that some four-fifths of the value of these 1985 receipts came from transactions between the U.S.-based parents of MNCs and their affiliates abroad, however, suggests that exchange rates are not the predominant determinant of payment flows in this business services category, and that a large portion of these transactions may be initially denominated in U.S. dollars.

Other Business Services

For the first time since 1979, the U.S. surplus in other business services declined marginally in 1985—to $3.6 billion (Figure 5.9). This category includes professional and other services in which the United States is often seen as having a strong comparative advantage. Deterioration of the balance in communications services was a major factor in the 1985 surplus decline.

Figure 5.7

U.S. SHIPPING AND OTHER TRANSPORTATION SERVICES, 1977–85

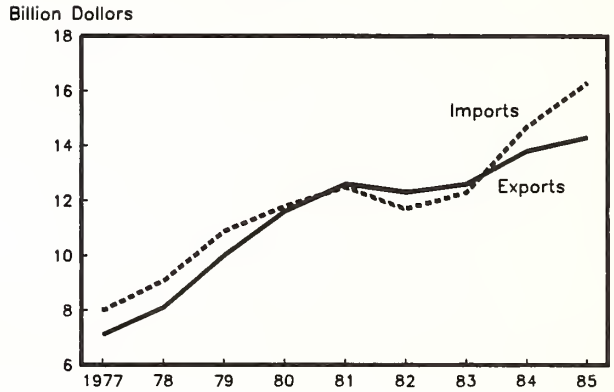
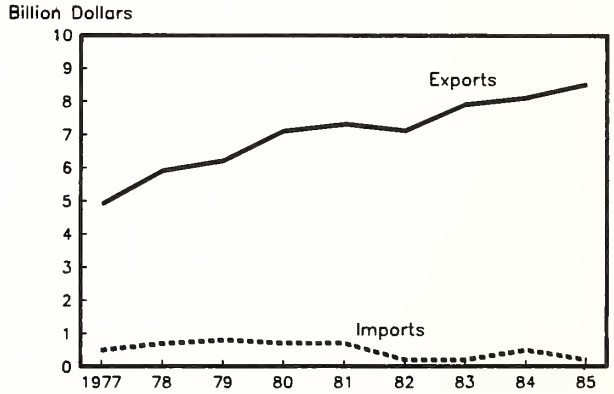


Figure 5.8

U.S. PROPRIETARY RIGHTS SERVICES EXPORTS AND IMPORTS, 1977–85

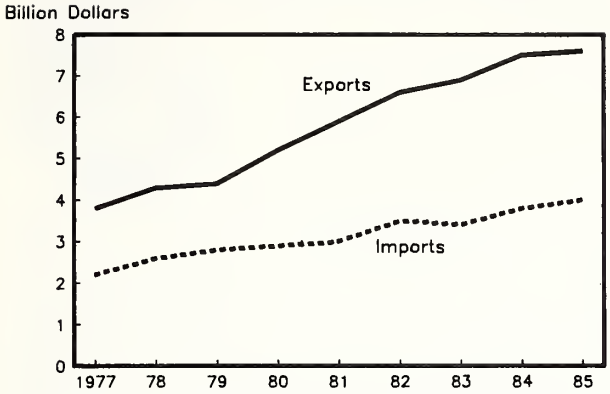


U.S. exports of other business services in 1985 totalled $7.6 billion, about one-sixth of total business service receipts. More than one-third of these export receipts, however, were for "miscellaneous" services—mostly expenditures of foreign governments and international organizations in this country as well as trade union receipts from Canadian affiliates and expenditures of foreign residents employed in the United States.[10] U.S. receipts in 1985 from exports of communications services, contractors' fees, film rentals, re-insurance and other financial services, management services, commissions, etc. totalled only about $5 billion, less than 2 percent of combined merchandise and business services exports.

Moreover, while exports of other business services will likely increase, they are not likely to become a

[10] It is believed that gaps in data collection procedures may significantly understate U.S. receipts of professional services. It is anticipated that more comprehensive data will become available when surveys are undertaken and compiled under authority of the recently amended International Investment and Trade in Services Survey Act.

Figure 5.9
OTHER U.S. BUSINESS SERVICES EXPORTS AND IMPORTS, 1977–85



major export earner because the net "value added" that accrues to the exporting nation from such exports is limited. U.S. receipts for exports of many types of other business services reflect only the "net export" or the "U.S. value added" portion of what may have been much larger sales transactions. The U.S. value added of these exports is limited as much of the gross value of exports of professional and other business services is frequently payments to foreign suppliers and employees and other foreign recipients. Such expenditures do not return to the United States as receipts, holding down the U.S. value added in some business services. For example, only a small portion of the premiums of a large insurance policy sold by a firm located in the United States to a foreign buyer would likely appear as a business services receipt. After international reinsurance, payments to foreign based employees, settlement of foreign claims, etc., the U.S. "export" recorded in the other business services account would be much smaller than the original amount of the insurance premium.

U.S. imports of other business services consist primarily of communications services—about two-thirds of the 1985 total of $4 billion. In fact, the United States consistently runs a substantial deficit in communications services trade.

THE IMPORTANCE OF BUSINESS SERVICES

As noted above, U.S. business services trade is substantial—some $90 billion in two-way trade for 1985—and continues to grow. But such trade is still very small compared to U.S. merchandise trade, only about one-sixth as large. Moreover, the United States experiences persistent deficits in travel and transportation—the dominant category of business services trade—and long-standing favorable balances in proprietary rights are likely to decline as foreign direct investment in the United States grows more rapidly than U.S. direct investment abroad. Surpluses in other business services are relatively modest and likely to remain so.

The 1985 business services trade surplus of only $200 million was insignificant compared to the $124 billion merchandise trade deficit (balance of payments basis). Even significantly improved performance in business services exports would be only a minor factor in overall U.S. trade and current account performance.

Nevertheless, the United States has an important policy interest in improving the international environment for trade in business services. The General Agreement on Tariffs and Trade (GATT) was created to deal with international trade in merchandise. The GATT has served the international trade community well and average tariff rates around the world have reached unprecedented low levels. There are, however, significant NTBs (non-tariff barriers) that should be reduced or eliminated and there is general recognition that the GATT could provide a good framework for addressing business services trade barriers as well as international direct investment issues. The United States strongly supports the inclusion of business services and international direct investment matters in the anticipated new round of multilateral trade negotiations to be undertaken under the auspices of the GATT.

THE U.S. CURRENT ACCOUNT, CAPITAL FLOWS, AND INTERNATIONAL INVESTMENT POSITION

This chapter describes the links between current account balances, capital flows, and changes in the international investment position (IIP). The contribution to current account performance of the non-trade items (investment income, "other" and unilateral transfers) is given special attention.

International capital flows increasingly appear to have been strongly influencing, rather than passively reacting to, U.S. trade flows; net capital inflows to the United States—i.e., increases in foreign-owned U.S. assets relative to U.S. foreign assets—have been a major causal factor in growth of the trade deficits, rather than the trade deficits themselves causing capital flows. (This inter-relationship and its policy significance are discussed in more detail in Chapter 8.)

CURRENT ACCOUNT, CAPITAL FLOW AND IIP LINKAGES

The current account measures the balance of a nation's external transactions during a stated period.[11] A current account surplus indicates a nation is producing more than it is consuming and exporting the difference; a current account deficit means it is consuming more than it is producing and importing the shortfall.

The current account is also a measure of a nation's net borrowing or lending abroad and matching international capital flows. Current account deficits represent borrowing financed by net capital inflows to the deficit nation; surpluses reflect lending abroad matched by net capital outflows. The resulting net international capital movements change a nation's international investment position (IIP)—the balance of the stock of its international assets and liabilities.

The net borrowing reflected in the current account deficits and the accompanying net capital inflows have rapidly transformed the IIP of the United States from the largest creditor position of any nation in 1982 to the largest debtor position of any nation by end-1985.

The 1985 current account deficit was 3.0 percent of the U.S. GNP. Net borrowing from foreigners grew by $85 billion, an amount equivalent to almost 40 percent of the 1985 increase in GNP. The 1986 current account deficit and the accompanying growth in the U.S. international debtor position will likely be similar relative to GNP. By the end of 1986, the U.S. net debtor position will probably be about 3 percent of GNP.

The current level of U.S. international debt is not a problem, given U.S. debt servicing abilities. Indeed, some argue that U.S. international debt could grow indefinitely, so long as it grew more slowly than debt servicing capacity, which is often seen as related to a country's GNP. But recent additions to the U.S. debtor position have far outpaced GNP growth and the debt-to-GNP ratio will continue to rise as long as large increases in the debtor position continue. Large net capital flows into the United States could maintain large trade deficits for some time, but no nation—including the United States—can indefinitely sustain continuing increases in the ratio of external debt to GNP. (See "U.S. Debt in Perspective" in Chapter 10 for a more detailed discussion of this issue.)

[11]The current account balance is that portion of U.S. international transactions representing the differences between the value of exports and imports of merchandise (goods), "services" ("services" here is used in the broad sense, i.e., it includes business services, investment income, and other transactions), and unilateral transfers. Previously, U.S. international transactions were reported as the U.S. balance of payments (BOP), and included balances on capital flows as well as on current account items.

COMPOSITION OF THE U.S. CURRENT ACCOUNT

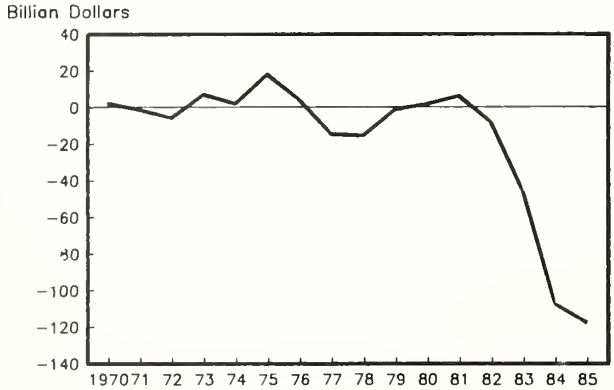
U.S. performance in international transactions can be assessed by examining each of five major current account categories: merchandise trade, business services trade, international investment income, "other international transactions", and unilateral transfers.

Throughout most of the post-World War II period the United States experienced current account surpluses generated in large part by positive balances in its merchandise trade (measured on a balance-of-payments basis). The United States ran merchandise trade surpluses every year between 1946 and 1969, accompanied by current account surpluses in all but three of those years (1950, 1953, and 1959). During this period the cumulative merchandise trade surplus approached $100 billion and the cumulative current account surplus exceeded $55 billion.

U.S. merchandise trade performance deteriorated through the 1970s and into the 1980s, and merchandise trade deficits became the rule. Until 1982, however, positive balances in business services trade and net receipts of investment income served to offset frequent merchandise trade deficits, so that the cumulative 1970-81 current account balance was slightly positive (Figure 6.1).

Figure 6.1

U.S. CURRENT ACCOUNT BALANCES, 1970–85



But since 1982, U.S. merchandise trade deficits have overwhelmed the much smaller business services trade and international investment income surpluses (Figure 6.2). Moreover, there has been marked deterioration in the traditionally positive U.S. business services trade account in recent years (see Chapter 5) and in net receipts of investment income, which peaked at $34 billion in 1981 but fell to $19 billion in 1984 before recovering to $25 billion in 1985.

Detailed discussions of developments in U.S. merchandise trade are included in several chapters of this report. Business services trade is reviewed in Chapter 5. In addition to goods and services trade, the U.S. current account includes three additional primary categories discussed in this chapter—*U.S. international investment income,* a group of miscellaneous items termed *other transactions,* and *unilateral transfers* (Figure 6.3). These categories have played important—but secondary—roles in U.S. current account trends. A look at these categories provides insights into their contribution to recent current account performance and what role they can be expected to play in the future.

Figure 6.2

U.S. MERCHANDISE TRADE, BUSINESS SERVICES, AND INVESTMENT INCOME BALANCES, 1980–85 (Balance-of-Payments Basis)

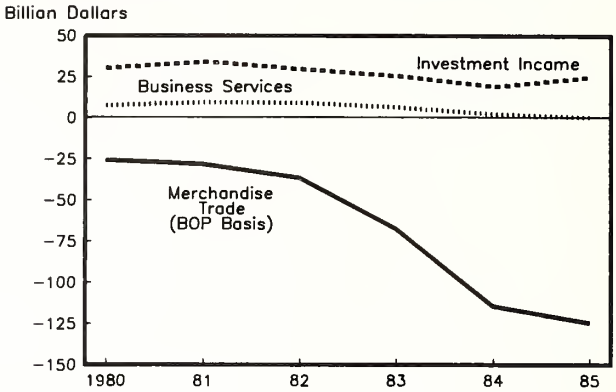
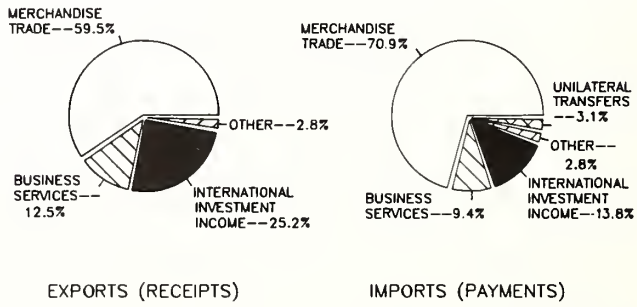


Figure 6.3

MAJOR U.S. CURRENT ACCOUNT COMPONENTS, 1985



U.S. International Investment Income

U.S. international investment income is the balance of receipts from U.S. holdings of foreign assets and U.S. payments to foreign holders of U.S. assets. The three basic forms of international investment assets and liabilities and the types of income and payments are:

- *Direct investment:* ownership/control of 10 percent or more of foreign business enterprises (income receipts from U.S. direct investment abroad; income payments to foreigners for direct investments in the United States).
- *Other private investments:* privately held "portfolio" investments (stocks, bonds, bank deposits, loans, annuities, etc.); income receipts by U.S. holders of

foreign portfolio items; income payments to foreigners on U.S. portfolio items, and

- *U.S. Government:* income receipts on foreign securities, loans, currency holdings or other assets held by the U.S. government; income payments by the U.S. government on foreign-held U.S. government securities and other liabilities.

International investment income has become an increasingly important factor in U.S. current account performance. International investment receipts as a proportion of total receipts from international transactions (goods, business services, international investment receipts and "other transactions") increased from 17.5 percent in 1977 to 25.1 percent in 1985. International investment payments rose from 7.3 percent to 14.2 percent of total transaction payments over the same period. The increasing roles of international investment receipts and payments in the current account reflects the cumulation over many years of a large stock of U.S.-owned foreign assets and the recent rapid increase in foreign-owned U.S. assets. Other private investment is the largest of the three types of international investment items, accounting in 1985 for more than half of both total investment receipts and payments (Table 6.1).

Table 6.1

U.S. International Investment Income by Type, 1985 (Billion dollars)

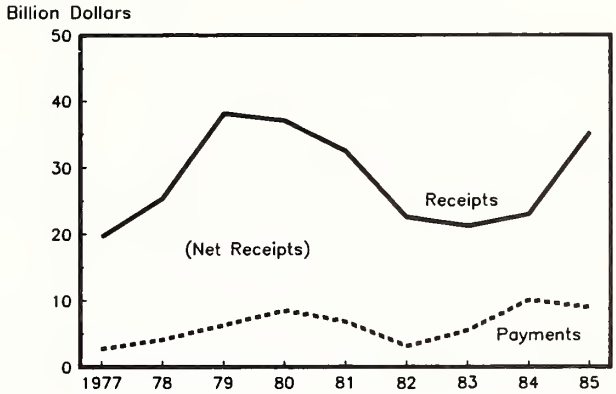
	Receipts	Payments	Net Receipts
Direct Investment	$35.3	$9.0	$26.3
Other Private Investments	49.9	35.5	14.4
U.S. Government	5.3	21.3	-16.0
Total	$90.5	$65.8	$24.7

Source: Bureau of Economic Analysis.

Direct Investment Receipts and Payments. The United States has consistently realized large net receipts from international direct investments. [12] The surplus in this account category reflects the fact that U.S. direct investment abroad is larger and more mature than foreign direct investment in the United States. Net receipts increased rapidly during the 1970s, reaching a record $31.8 billion in 1979 as foreign affiliates of U.S.-based multinational corporations realized record profits (Figure 6.4). Over the next five years, however, these direct investment net earnings dropped, reflecting both economic activity and currency translation effects.

Figure 6.4

U.S. DIRECT INVESTMENT INCOME RECEIPTS & PAYMENTS, 1977–85



Both the low 1984 total—$12.9 billion, the lowest since 1972—and the resurgent 1985 figure ($26.3 billion) reflected very large currency translation losses and gains, respectively. [13]

Payments to foreigners for direct investments in the United States have been relatively small. Large fluctuations in receipts from U.S. direct investment abroad have been largely responsible for rather wide swings in net income in this account. Direct investment receipts grew steadily in the 1970s, peaking at an average of almost $38 billion in 1979 and 1980.

Two factors apparently account for a large portion of the decline during the period 1981-84. [14] First, profits of U.S. affiliates abroad were adversely affected by the economic slowdown in most developed countries and several important LDC debtor nations. Second, appreciation of the dollar over the period resulted in substantial earnings translation losses—i.e., foreign currency earnings translated into smaller and smaller U.S. dollar values.

Other Private Investment. Net U.S. receipts on other private international investment grew strongly during the 1970s, peaking at $24.2 billion in 1982 (Figure 6.5). Faster growth in foreign private holdings in the United States since 1982, however, has resulted in a decline in net receipts to $14.4 billion in 1985.

U.S. receipts on other private investments increased more than four-fold between 1977 and 1982, reflecting increased foreign interest payments on both higher

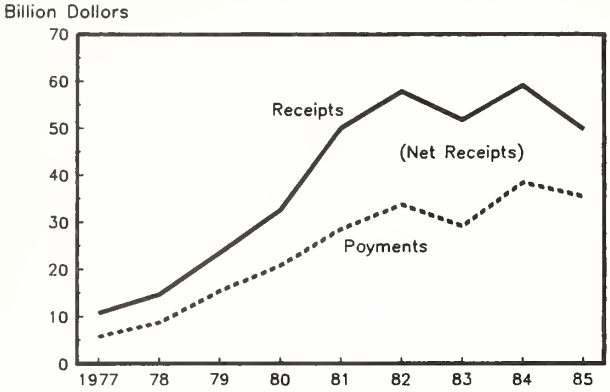
[12] For a more comprehensive analysis of U.S. and global international direct investment, developments, see forthcoming OTIA publication International Direct Investment: Global Trends and the U.S. Role.

[13] Income earned by U.S. multinational corporations and other U.S. investors abroad is normally earned and initially reported in local currencies. Thus changes in the dollar exchange rate have a direct effect on income of the parent firm as reported when converted from local currencies to dollars.

[14] Income receipts and payments include income reinvested by U.S. affiliates abroad, and by foreign affiliates in the United States. Thus, total United States income receipts generally far exceed the income actually repatriated to the United States — reinvested earnings have averaged about 40 percent of the total in recent years. These reinvested earnings are recorded as outflows in the capital account.

Figure 6.5

OTHER PRIVATE INVESTMENTS, RECEIPTS & PAYMENTS 1977–85



levels of U.S. bank lending abroad and increases in global interest rates. These receipts leveled off after 1982 as a result of lack of growth in the stock of bank lending and other U.S. private portfolio investment abroad and the general decline in interest rates.

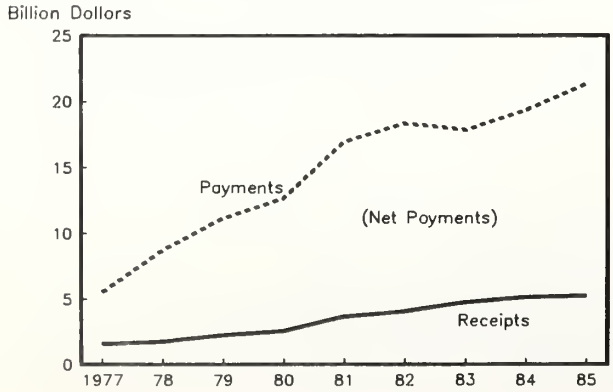
Payments to foreigners on other private investments have, in contrast, grown rapidly in recent years, reflecting the continuing expansion of foreign-owned private assets in the United States and relatively high U.S. interest rates early in this decade. The recent decline in U.S. interest rates helped prevent 1985 payments from exceeding the record $38.5 billion total of 1984.

U.S. Government. Net U.S. Government payments to foreigners on U.S. Government securities have consistently increased more rapidly than receipts from U.S. government-owned foreign assets over the last several years, reaching a record $16 billion in 1985 (Figure 6.6). The slower growth in receipts reflects the fact that foreign holdings of U.S. Government securities have increased more rapidly than U.S. Government-owned foreign assets. By 1985, foreign holdings of U.S. Government securities had a book value about twice that of U.S. Government holdings of foreign assets.

The United States in recent years has encouraged foreign purchases of U.S. Government securities, including special arrangements with the major oil exporting countries during the 1970s and, more recently, by direct marketing abroad. Most U.S. Government holdings of assets abroad consist of relatively low-interest foreign assistance and trade credit loans. The low return on these assets contributes to the fact that U.S. Government receipts typically total only about one-quarter the value of U.S. Government payments.

Figure 6.6

U.S. GOVERNMENT PAYMENTS & RECEIPTS, 1977–85

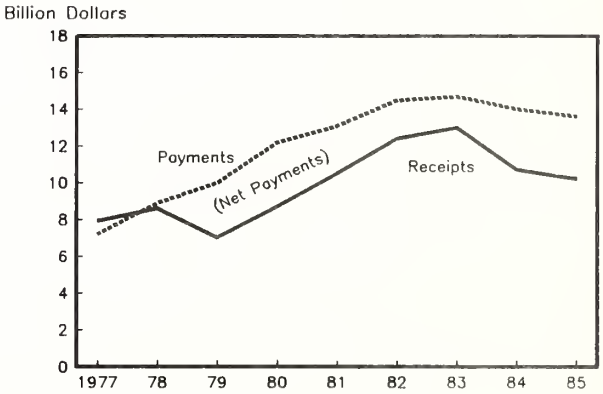


Other International Transactions

In this report, the current account category titled "other transactions" refers to military and U.S. Government services transactions. Since 1978 net payments in this category have averaged slightly less than $3 billion annually (Figure 6.7).

Figure 6.7

OTHER GOODS AND SERVICES, RECEIPTS & PAYMENTS 1977–85



Military Transactions. Net military transactions are the receipts from U.S. exports under military sales contracts, *less* U.S. direct defense expenditures abroad. The United States has run modest deficits in this item each of the last seven years (averaging $1.3 billion), and total combined receipts and payments involving military transactions have changed little in recent years.

U.S. Government Services. U.S. Government imports of services have consistently exceeded the very small total of U.S. Government services exports, which have never topped $1 billion. The deficits in this category have been small—an average of about $1.5 billion over the 1981-85 period—and stable in recent years.

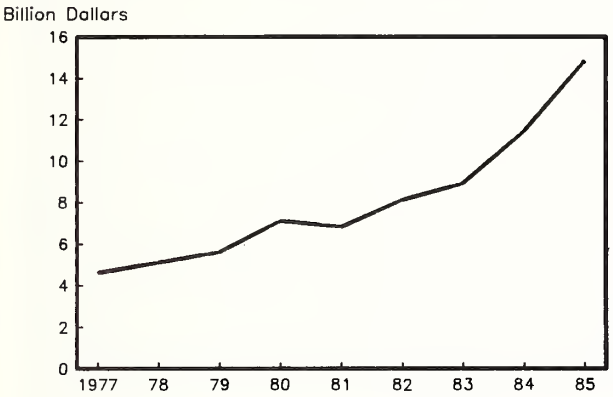
Net Unilateral Transfers

Unilateral transfers as reported in U.S. international transactions data consist of the net flows resulting from government grants, pensions and other transfers, and private remittances and miscellaneous transfers. Reflecting the U.S. leadership role in international affairs, the transfers category is dominated by U.S. grant payments in the form of foreign grant aid and financing of military purchases.

Statistics covering unilateral transfers are reported only on a net payments basis because U.S. receipts are inconsequential. U.S. net unilateral transfer payments have increased steadily in recent years, from $4.6 billion in 1977 to $14.8 billion in 1985 (Figure 6.8). U.S. Government grants accounted for about three-quarters of the total net unilateral payments, with the remainder being almost equally divided between other U.S. Government and private sector transfers.

Figure 6.8

U.S. NET UNILATERAL TRANSFER PAYMENTS 1977–85



CAPITAL FLOWS AND DETERIORATION OF THE U.S. INTERNATIONAL INVESTMENT POSITION

As noted earlier there are direct relationships between the U.S. current account, international capital flows, and the U.S. international investment position. Net capital flows are the mirror image of the current account balance. U.S. capital inflows accumulate in the form of an increasing stock of foreign-owned investments in the United States (U.S. liabilities). U.S. capital outflows accumulate as an increasing stock of U.S.-owned assets abroad. The net U.S. international investment position is the stock balance of these U.S. and foreign-owned assets. In effect, current account balances and accompanying capital flows change a country's international investment position, the balance sheet of its international assets and liabilities.

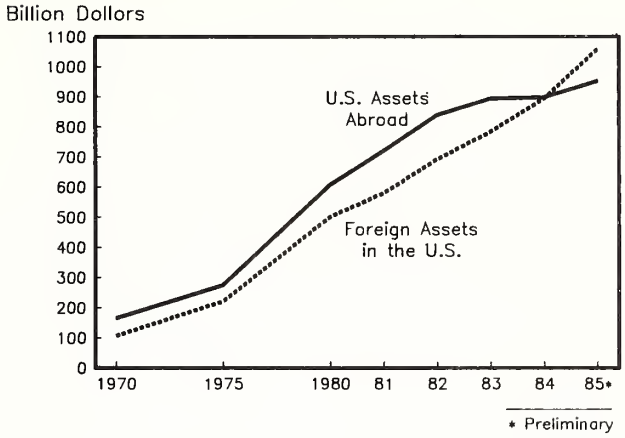
The Current Account-IIP linkage

As a result of continuing U.S. current account deficits and the accompanying net inflows of capital, the United States officially became a debtor nation in 1985. The value of foreign-owned assets in the United States exceeded the value of U.S.-owned assets abroad for the first time since 1914 (Figure 6.9).

Conceptually, U.S. current account balances are matched by equal and offsetting capital flow balances—e.g., a current account deficit is financed by net capital inflows that match exactly the amount of the current account deficit. Measurement discrepancies exist, however.

Figure 6.9

U.S.–OWNED ASSETS ABROAD AND FOREIGN–OWNED ASSETS IN THE U.S., 1970, 1975, 1980–85



Current account data are measurements of international flows of goods and services and other receipts and payments. The data are collected from disparate sources, often using sampling techniques to develop estimates. The results are imperfect in accuracy. Capital flow data are also collected from disparate sources and are similarly imperfect. As a result of imprecisions in both data sets, indicated current account imbalances may not correspond exactly with indicated capital flows. Indeed, the disparity between the two sets of data as compiled is often a sizeable statistical discrepancy residual. In recent years, U.S. current account deficits have frequently been significantly greater than the reported net capital inflows. This suggests that there have been large, unrecorded capital inflows and that the net U.S. international investment position may, in fact, have deteriorated more rapidly than the indicated amount. An alternative explanation is that U.S. exports have actually been larger than those recorded. In fact, both factors probably have contributed to the difference. [15]

[15] Capital flow data provide the basic information used to determine the U.S. international economic position. Various adjustments to the capital flow data are made before they are added to (or subtracted from) the previous year's IIP statistics. Some of the U.S. assets abroad data—primarily U.S. official reserve assets and U.S.-owned foreign securities—are adjusted for exchange rate changes during the year. In addition, U.S.-owned foreign security values are adjusted for local currency price changes and direct investment abroad data are subject to various adjustments. Adjustments to data on foreign assets in the United States include valuation adjustments for U.S. Government and private securities and various adjustments to data on foreign direct investment in the United States. In 1985, these adjustments amounted to additions of $21.7 billion for U.S.-owned assets abroad and $38.9 billion for foreign-owned assets in the United States.

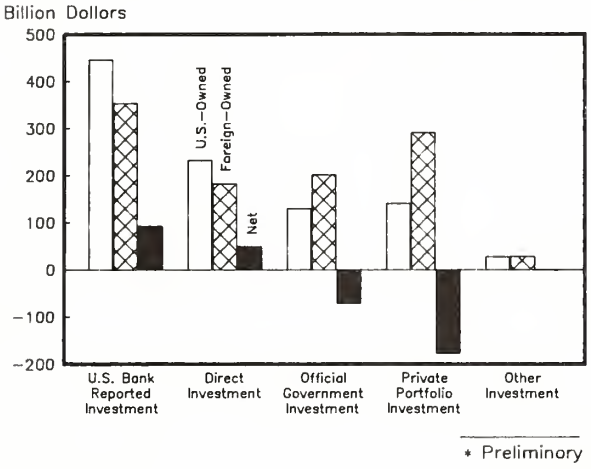
Officially published data on U.S. assets abroad and foreign assets in the United States probably understate their current market values. Assets which are recorded at or close to historical cost—primarily gold held as U.S. official reserves and direct investment position statistics—generally have a far larger current market value. U.S. official reserves of gold are valued at about $42 per ounce, resulting in an IIP value of about $11 billion, while the market value is many times greater. Also, direct investments are recorded at their historical value. But over time, inflation and growth in earning power have increased the net worth of many of these investments beyond the historical value reflected in the IIP. This is especially true for the generally longer-established stock of U.S. direct investment abroad.

The Rapid U.S. Swing Into Debtor Status

Consistent with its status as an advanced industrialized country, the United States for many years registered a growing positive (creditor) international investment position—i.e., the value of U.S. assets abroad consistently increased more than the value of foreign assets in the United States. The official U.S. creditor position peaked at $147 billion in 1982, but has since deteriorated rapidly as a result of large net U.S. capital inflows and U.S. current account deficits. The official IIP became negative in early 1985 with the year-end 1985 debtor position exceeding $107 billion. Although the overall U.S. investment position is now negative, U.S. assets still exceed U.S. liabilities in certain types of investment (Figure 6.10).

Figure 6.10

COMPOSITION OF U.S. INTERNATIONAL INVESTMENT POSITION, 1985*



Data detailing changes in the U.S. international investment position illustrate the rapid "internationalization" of capital flows and investment. The total value of U.S. assets abroad and foreign assets in this country almost quadrupled over the ten-year period, 1975-85.

The recent deterioration in the net U.S. international investment position reflects an acceleration in the growth of foreign-owned assets in the United States, while U.S. assets abroad have increased at a more modest pace since 1982. The resulting net capital inflows into the United States were stimulated by various international macroeconomic developments.

U.S. Assets Abroad

U.S. holdings of assets abroad consist primarily of loans and other investments abroad by U.S. banks (almost one-half of the $950 billion total for 1985), direct investment abroad (more than one-quarter of the total), and U.S. Government assets (including official reserves, and U.S. holdings of stock and bonds abroad). Total U.S. assets abroad grew rapidly between 1975 and 1982, increasing at an annual rate exceeding 16 percent. Between 1982 and 1985, however, the growth rate was less than 4 percent. The dramatic slowdown in the growth of U.S. assets abroad reflected generally more attractive investment opportunities in the United States than abroad and the financial effects of the LDC debt crisis.

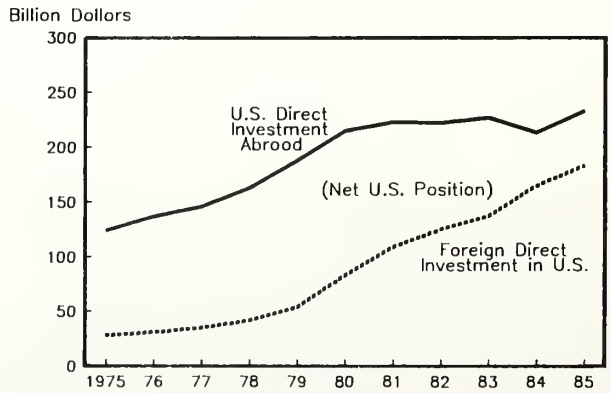
U.S. Bank Lending Abroad. Increases in foreign assets abroad held by U.S. banks accounted for almost two-thirds of the total increase in U.S. assets abroad between 1975 and 1982. A large portion of the increase in U.S. bank assets abroad during these years was loans to major developing countries, especially those in Latin America (e.g., Mexico and Brazil). But debt in some LDCs had grown too rapidly. Economic policies in some discouraged domestic investment and growth of goods exports and instead encouraged capital flight to foreign havens, much of it to the United States. The economic recession experienced by the United States and other developed countries in 1981-82 slowed the exports of major LDC debtor nations and left some of them without enough hard currency to meet their loan repayments. The recession thus served as the catalyst for the "LDC debt crisis." U.S. and other developed country banks—seeing that LDC debtor countries were hard pressed to meet their existing repayment obligations—made only modest additions to existing loans to these countries after 1982.

U.S. Direct Investment Abroad. Following strong growth during the 1970s, U.S. direct investment abroad (USDIA) slowed markedly after 1981. The year-end 1985 book value of $233 billion was marginally higher than the 1981 total (Figure 6.11). Adverse economic growth prospects in Western Europe and in Latin America—two areas with large amounts of USDIA—reduced the incentive for U.S.based MNCs to make new investments or expand their existing investments abroad. Also, higher rates of return on portfolio investments in the United States than abroad encouraged U.S. parent firms to return available funds to the United States.

It is important to recognize that the $233 billion book value figure for USDIA may very well substantially understate the actual market value and related investment income earning power of U.S. direct invest-

Figure 6.11

U.S. NET DIRECT INVESTMENT POSITION, 1975–85



ment abroad. A relatively large portion of USDIA (compared to foreign direct investment in the United States) consists of investments made 20 or 30 years ago and recorded in the IIP at the transaction cost at that time. Because of real appreciation in the value of profit-making business enterprises over the years and significant inflation during the 1970s, the actual market value of U.S. investments abroad is likely much higher than the recorded historical cost value reflected in official statistics. There are similar tendencies in understating the valuations and related earning power of foreign direct investments in the United States. The undervaluation is, however, likely significantly less, since much foreign investment in the United States is of relatively recent vintage.

Foreign Assets in the United States

During the last ten years foreign-owned assets in the United States have increased almost four-fold, to a value of more than $1 trillion at year-end 1985 (compared to U.S.-owned foreign assets of about $950 billion). This growth has been relatively steady over the period, averaging over 16 percent annually, with increases over the last five years averaging more than $100 billion annually.

The major types of foreign-owned assets include foreign private assets in U.S. banks (about one-third of the total), foreign direct investment in the United States (17 percent), foreign private holdings of U.S. stocks and bonds (20 percent), and foreign official holdings and private holdings of U.S. Government securities (9 percent and 8 percent, respectively). There have been rapid increases in almost all of these categories, indicating that foreign investors are becoming increasingly integrated into most aspects of the U.S. economy and that the traditional U.S. policy of placing very few restrictions on foreign investment is encouraging a broad range of foreign investment activity in the United States.

THE DOMINANT ROLE OF MANUFACTURES TRADE IN U.S. EXTERNAL ACCOUNTS

The foregoing discussion illustrates the diversity and complexity of the various transactions that comprise the U.S. international accounts. It is important to note, however, that the dramatic shifts in the current account, capital flows, and the U.S. international investment position in recent years are manifested primarily in the large deterioration in U.S. manufactured goods trade performance. Reflecting developments in international financial flows, U.S. merchandise trade performance—particularly manufactured goods trade performance—will continue to be the predominant factor in U.S. international account developments.

7

RECENT EFFECTS OF U.S. TRADE AND CURRENT ACCOUNT DEFICITS

Trade and current account deficits and corresponding net capital inflows are not necessarily harmful. Globally, national surpluses and deficits conceptually are offsetting. National current account imbalances reflect international capital movements that are international resource reallocations.

The recent large U.S. current account deficits and matching net capital inflows are indicative of very significant changes in international trade and capital movements. These changes have already had important effects. This chapter examines recent effects of U.S. trade deficits and net capital inflows on the United States and the world economy. Chapter 10 examines the longer-term implications.

RECENT EFFECTS ON THE UNITED STATES

Economic Recovery

The margin of imports over exports reflected in trade deficits is sometimes seen as displacing U.S. workers and reducing domestic employment. On balance, however, the net capital inflows corresponding to the trade deficits of recent years have played a vital, positive role in U.S. economic recovery. Over the 1983-1985 period the United States experienced both growing budget deficits and strong investment spending. The savings generated by the U.S. economy during those years were inadequate to finance both requirements. The shortfall over that period, equal to about 15 percent of U.S. gross domestic investment, was supplied by net inflows of foreign goods and capital.

Absent these inflows of foreign funds and goods, either Federal Reserve policy would have had to accommodate these deficits by enlarging the money supply, contributing to higher inflation, or U.S. interest rates would have been pushed higher by the competition for available savings. Either would have led to reduced U.S. economic growth.

In effect, foreign capital inflows represented by the trade deficit permitted concurrent increases in investment, domestic consumption and the federal budget deficit. Though some workers were displaced by imports, strong economic growth has raised total U.S. employment substantially. This job growth was accomplished simultaneously with a dampening of inflation.

Lower Inflation

Imports played a key role in holding down inflation and leaving U.S. consumers with increased purchasing power. Low-priced imports not only provided foreign goods to U.S. consumers, but kept pressure on domestic producers of import-competing products to maintain competitive costs and prices, stiffening resistance to inflationary wage and price increases and motivating cost-cutting measures in U.S. industry.

Trade Deficits and U.S. Employment

Exports and imports of goods and services affect U.S. output and employment in many ways. Put simply, exports add to U.S. production and jobs, while imports compete against U.S. producers. Both speed the pace of adaptation and structural change within the U.S. economy and increase its efficiency. Structural change, in turn, influences the composition and level of U.S. output and employment.

Structural change benefits the economy in the long term by increasing the productivity of both capital and labor and thus raises income levels. But structural change also frequently imposes immediate costs on displaced firms and workers. The role of foreign trade in these displacements can be overstated, with foreign imports blamed for structural and employment changes that result from new technologies, productivity growth and other factors. Nevertheless, the effects of international trade on the U.S. economy are increasingly significant.

Trade clearly influences the level and composition of U.S. employment. The number of U.S. jobs related to U.S. exports can be determined, after the fact, with some degree of accuracy by analysis of historical data. In 1984 each $1 billion of U.S. exports generated, on average, about 25,800 jobs. Analyses of actual data also show that export-related jobs have declined from the 1980 peak of 7.2 million, because the volume of U.S. exports has declined, continuing increases in productivity have lowered the number of jobs needed to produce each billion dollars of exports, and because of the increased use of imported parts in items produced for export. (See Chapter 11 Special Topic "Contribution of Exports To U.S. Employment".)

These are realistic *post-hoc* estimates of export-related job creation based on analyses of actual events. But based on the assumption that a large net balance on imports (trade deficit) substitutes for domestic production in import-competing industries, some argue that an excess of imports over exports "destroys" U.S. jobs, measuring the effect on employment by multiplying the *post-hoc* estimate of export-related jobs—25,800 jobs per $1 billion of exports—by the amount of the trade deficit. Following this line of reasoning, a $100 billion growth in the trade deficit would seem to equate to a "loss" of 2,580,000 jobs.

But this kind of calculation is simplistic, implicitly assuming elimination of the U.S. trade deficit without related effects on other sectors of the economy. The results, at best, can be misleading. Given the complex effects of trade and capital flows on both the U.S. and the world economies, estimates of the effects of trade deficits (or surpluses) on employment require assumptions about so many different interrelated variables that the end results are not meaningful. In short, the results are largely determined by many critical assumptions, some of which may be inconsistent or unrealistic.

Simplistic "jobs destroyed" analyses ignore the stellar U.S. job creation performance record during the period of rising trade deficits. In fact, over 7 million jobs were created from the beginning of the U.S. economic recovery in November 1982 through 1985. Moreover, the number employed at end-1985 was at an all-time peak and the unemployment rate at the lowest level since 1979.

Simplistic "jobs destroyed" analyses also ignore the fact that the trade deficits reflect capital inflows that played an important role in creating the macroeconomic conditions that made it possible to create so many new jobs in the U.S. economy as a whole. Jobs lost analyses presume that some combination of policy actions could have produced a still better job creation record; that by eliminating the trade deficit the record in non-trade related sectors would be equally as good, with still more jobs added by improved trade performance.

But it does not follow that policy actions intended to narrow the deficit by restricting U.S. imports would necessarily result in a one-for-one substitution of domestic production for imports, without offsetting employment declines in other sectors of the economy. In fact, restrictive policy actions may well lead to a net loss of jobs.

A reasoned estimate of U.S. employment under a hypothesized balanced trade scenario requires looking at a number of interrelated factors. For example:

- Is the deficit eliminated through expanded exports, reduced imports, or both? Expanded exports create new jobs. U.S. import growth may be restrained by slower U.S. economic growth; total imports may decline in a recession. Either situation implies reduced U.S. total employment opportunities from non-trade related causes.
- An improved U.S. trade balance attempted via import restrictions risks retaliation against U.S. exports that may cause export job losses. Moreover, while import restrictions may benefit some industries, they may raise the costs and lower the competitiveness of exporting industries, encouraging them to move offshore. Cuts in U.S. imports also will reduce foreign purchasing and the debt-servicing abilities of LDCs, with feedback effects on U.S. exports.
- Absent other offsetting changes in the U.S. budget deficit and the U.S. saving rate, the macroeconomic effects of a reduction in the trade deficit and corresponding reductions in foreign capital inflows caused by trade restrictions could have unfavorable effects on U.S. employment. For example, interest rates and domestic inflation would likely be higher, with the result that investment spending and economic growth and employment levels would likely be lower.

The above are only a few of the many problems in dealing with estimates of the employment effects of trade deficits. But clearly, simplistic estimates calculated by translating the trade deficit to job losses are misleading because they do not take cognizance of the complexities of the U.S. economy and an interdependent global economy. Estimates of job losses "caused" by imports should specify the numerous tenuous qualifying assumptions and hypotheses on which they are based.

EFFECTS OF U.S. DEFICITS ON THE WORLD ECONOMY

The U.S. Locomotive

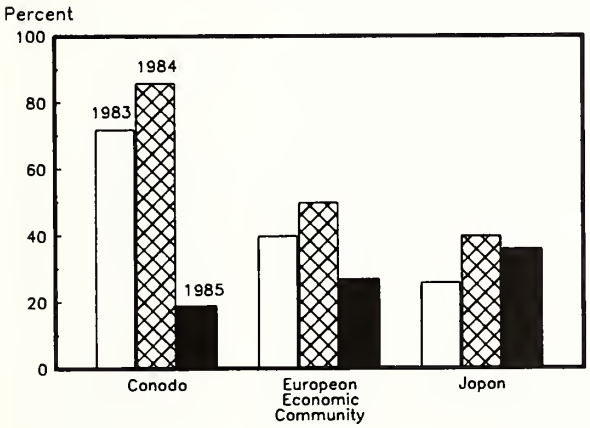
The rest of the world economy has benefited significantly from increasing U.S. trade deficits. The rapid

increase in U.S. imports was responsible for much of foreign export growth and a major factor in restarting economic growth around the world after the 1981-82 global recession.

Both developed and developing countries have gained from the strong growth of U.S. imports. Over the 1984-1985 period the United States absorbed a large portion of the export growth of several industrial countries. About 82 percent of Japan's export increases and 21 percent of European Community export increases also went to the United States (Figure 7.1). In the case of Canada, while exports to the United States rose, exports to other markets decreased far more.

Figure 7.1

GROWTH IN EXPORTS TO THE UNITED STATES AS A SHARE OF GNP GROWTH OF SELECTED COUNTRIES 1983–85



The full direct and indirect contributions to economic growth in these countries were far larger, possibly 1.5 to 2 times greater, than the value of the additional exports generated. The indirect effects included the added stimulation to their economies from the funds spent domestically in those countries to generate the increased exports to the United States. On the other hand, net capital outflows to the United States have lowered the supply and increased the cost of capital abroad and thus have tended to reduce the growth prospects for the rest of the world.

Easing LDC Debt Burdens

The U.S. trade deficit also has helped to ease the burden of high-debt developing countries. Strong U.S. economic growth during 1983-85 made it possible for LDC debtors to expand their exports to the United States. The $21 billion negative swing in the balance of U.S. trade with debtor countries since 1981 has been a very important factor in keeping those economies viable, maintaining political and economic stability, and stabilizing their international financial situations. By buying more of these nation's exports, the United States transfers to them financial resources they need to service their debts.

RECENT EFFECTS VS. LONGER TERM IMPLICATIONS

The burgeoning U.S. trade deficits have had both positive and negative short-term effects on the U.S. economy and on foreign economies. As noted in Chapter 10, however, the longer-term implications of continuing U.S. deficits may be different.

8

CAUSES OF THE TRADE DEFICITS

The U.S. merchandise trade deficit ballooned from less than $40 billion in 1980 to almost $150 billion in 1985. Why did this huge growth occur? The most commonly cited "causes" are:

- the relentlessly rising dollar exchange rate from 1980 through early 1985;
- more rapid U.S. economic growth than foreign growth after the 1981-82 global recession;
- the acute financial problems of high-debt LDCs that are important U.S. export markets;
- trade barriers imposed against U.S. exports by other countries;
- a decline in U.S. "competitiveness".

Each of these is an important factor in the current U.S. trade situation and each represents a problem that must be dealt with. But, in fact, the first three (the strong dollar, differential international growth rates, and the LDC debt problem) are actually manifestations of differing national economic policies and performance that have markedly changed international capital flows in recent years. Changing these three factors and their effects on U.S. trade depends fundamentally on U.S. and foreign macroeconomic policies and performance. The remaining two (foreign trade restrictions, a decline in U.S. "competitiveness") were not major factors in recent U.S. trade imbalances.

This chapter links changing international capital flows with the enlarging U.S. trade deficits and assesses the role of each of the principal perceived "causes" of the deficits.

FUNDAMENTAL CAUSES OF THE GROWTH IN U.S. TRADE DEFICITS

A country's current account and trade balances are determined fundamentally by its national macroeconomic performance and policies *relative to* those of other countries and by its domestic investment and saving behavior *relative to* investment and saving abroad. These international macroeconomic relationships—which include trade performance as one of many factors—determine the size and direction of international capital flows and, in turn, whether an individual nation is a net capital importer or a net capital exporter.

The size and direction of net capital flows fundamentally influence a nation's current account balance. The counterpart of net capital inflows—which reflect international borrowing—is a current account deficit. The counterpart of net outflows—which reflect lending to the rest of the world—is a current account surplus.

In recent years, U.S. and international economic conditions have changed the United States from a capital exporter country to a large capital importer. Over the last few years, U.S. private sector investment plus the U.S. Government deficit has been significantly greater than saving by U.S. individuals and firms. The gap has been filled by large net inflows of foreign capital. These enlarging net inflows of foreign capital—foreign investment in the United States—are the mirror image of the growing U.S. current account deficits.

The current account component most affected by changes in capital flows is usually the merchandise trade account. Net capital inflows tend to produce merchandise trade deficits; net capital outflows tend to result in merchandise trade surpluses. The trans-

formation of the United States from a capital exporter to a large capital importer has resulted in huge merchandise trade deficits.

INTERNATIONAL MACROECONOMIC FACTORS AND U.S. INTERNATIONAL CAPITAL FLOWS

United States Transition From Net Capital Exporter to Net Capital Importer

Fundamental shifts in global economic relationships underlie the recent changes in international capital flows and the resulting deterioration in U.S. trade performance.

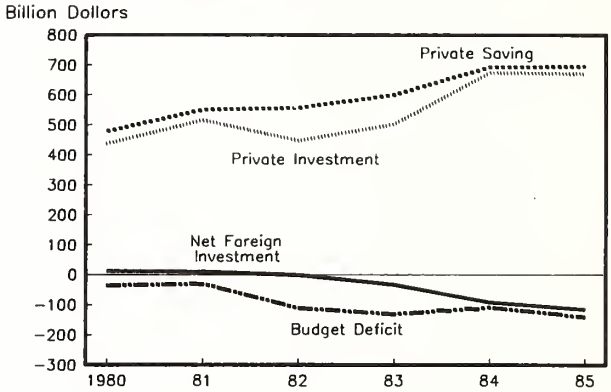
Beginning in the early 1980s, the United States adopted expansionary policies—e.g., deregulations, broad tax rate reductions and investment tax credits—that encouraged economic growth and spurred both investment and consumption. At the same time, monetary policies designed to counter inflation limited U.S. money supply growth and fostered U.S. real interest rates relatively higher than those in many foreign countries. The resulting combined U.S. demand for funds to finance growing federal budget deficits and rising domestic private investment far exceeded domestic saving. The difference was made up by foreign investment in the United States—by net imports of capital from abroad. These net capital imports represent the funds required to finance net imports of goods and services.

The escalation of the trade deficit is, therefore, in essence a reflection of the transformation of the United States from a net saver to a net dissaver country. Tracing the evolution of this change from saver to dissaver, in 1980 the United States set aside through private saving and took in through taxation about $2 billion more than it spent through the combination of private domestic investment spending and government outlays. By 1982, however, there was a small "dissaver" position, with private investment and government spending exceeding savings and taxation by about $8 billion. In 1983, the excess of investment and government spending over saving and taxation began to widen rapidly, reaching $45 billion in 1983 and soaring to $107 billion in 1984. The gap between saving and the combination of investment spending and the government deficit again widened in 1985, but more slowly—to $117 billion.

A dissection of the saving vs. investment and government deficit relationships reveals the key factors in the rapid switch of the United States to a "dissaver" position. As a result of the U.S. economic recovery, U.S. domestic investment grew dramatically. Private investment was more than one-half higher in 1984 (the peak of the recovery) than in 1980. The federal budget deficit also grew dramatically, reaching $173 billion in 1984. Private investment in 1984 was $674 billion, while net government dissaving—the deficit—was $108 billion. Domestic saving at $693 billion was insufficient to meet these two investment needs, but net foreign investment of $91 billion made up the difference (Figure 8.1). This inflow of foreign capital (plus a statistical discrepancy), is equivalent to the 1984 current account deficit.

Figure 8.1

U.S. NET FOREIGN INVESTMENT, PRIVATE SAVING AND INVESTMENT, AND BUDGET DEFICIT, 1980–85



The critical element in producing these imbalances was the uninterrupted expansion of the federal budget deficit from about $60 billion in 1980 to over $200 billion in 1985. Absent the very large government deficits, private saving probably would have been more than adequate to meet U.S. investment needs, the dollar exchange rate would probably have been lower, and the net foreign capital inflows and the accompanying very large current account and trade deficits probably would not have occurred.

A number of macroeconomic developments in the United States and abroad facilitated the inflow of foreign savings to the United States. The major European economies remained relatively stagnant after the global recession in the early 1980s as their governments relied more extensively on fiscal austerity than on restrictive monetary policies to "wring out" remaining inflationary tendencies. There was general pessimism internationally about European growth prospects compared to those of the United States. Japan continued to pursue policies that relied on foreign consumption of Japanese goods rather than domestic consumption to drive economic recovery and growth. And, for a variety of reasons, international investors became hesitant to further expand lending to many debt-ridden LDCs.

These and other international macroeconomic factors encouraged many foreign investors to increase their investments in the United States in preference to investments elsewhere. Existing conditions also encouraged U.S. investors—including U.S. banks—to reduce the flow of new investments to foreign countries and, instead, to increase their investment in the United States. The resulting net inflows of capital into the United States funded the excess of government and

investment spending over saving. These net inflows—reflected in current account and trade deficits—allowed the United States to consume more than it produced, simultaneously financing enlarged consumer spending, an investment boom, and a growing government deficit.

These changes in international capital flows and the U.S. current account balance were felt primarily in the merchandise trade account, where they were manifested in several ways perceived by individual traders as "causes" of the trade deficit. These included: an appreciating U.S. dollar exchange rate, driven upward by increasing international demand for dollar-denominated U.S. assets; relatively strong U.S. economic growth; and a debt crisis that significantly restricted the imports of LDCs.

A New View of the Relationship Between Trade and Capital Flows

The fact that international macroeconomic factors, through their effects on international capital flows, can have the dramatic effect on a country's trade balance recently experienced by the United States is a new and not widely understood development. Traditionally, capital account surpluses or deficits had been viewed as passively adjusting to match current account deficits and surpluses; i.e., capital flows were assumed to adjust to trade flows. Thus, the goods and services trade performances of a country were thought to be the major determinants of its current account balance. In the current international environment, however, capital flows can no longer be thought of as passively financing an independently determined U.S. current account balance. Rather, the net of international capital flows now exerts an independent force on the U.S. current account and trade balances. The current account adjusts to reflect the consequent net capital flows. The adjustment of the current account occurs primarily through changes in exchange rates, relative prices, and income levels at home and abroad. In essence then, a country's current account and trade balances are determined fundamentally by international capital movements that reflect domestic investment and saving behavior (including government) relative to investment and saving behavior abroad.

The policy implications of this conclusion are very significant. To the extent a country's current account balance is determined by net capital flows which are, in turn, determined by its saving and investment behavior relative to that abroad, fundamental changes in its current account (and trade) balances will be accomplished only to the extent that its saving and investment patterns change relative to those abroad. Policy actions that do not alter these relationships are, therefore, not likely to have major lasting effects on the current account and trade balances. For example, opening markets abroad by reducing foreign trade barriers will not necessarily improve the fundamental position of the U.S. current account deficit. Reductions in foreign trade barriers, despite other beneficial effects, will affect the current account only to the extent that they change saving or investment patterns.

While trade developments still influence international capital flows, recent events illustrate the dominance of capital flows in determining the factors that affect U.S. trade balances. If trade and current account balances dominated capital flows, the huge U.S. trade and current account deficits beginning in 1983 would earlier have caused exchange rate and other adjustments that would have braked the growth of large U.S trade deficits. Instead, the dollar remained strong, based on international investor evaluations that apparently emphasized considerations other than U.S. trade performance. Large deficits continued into 1985 and will continue into 1986 and, probably, even beyond.

This does not mean, however, that capital flows have been unaffected by trade peformance or that cumulative trade deficits may not become a dominant factor in the longer term. Enlarging U.S. trade deficits have undoubtedly had some influence on international investor decisions in recent years. And looking to the longer term, continued very large U.S. trade and current account deficits could, in time, eventually create effects that could alter capital flows and force changes in trade flows. But in recent years a number of events appear to have made capital flows less immediately responsive to U.S. trade performance and relatively more responsive to other longer term U.S. and international macroeconomic considerations.

International capital markets have been undergoing dramatic change. Floating exchange rates, instant telecommunications capabilities, deregulation of capital markets, easing of restrictions on international capital movements, lowered transaction costs, and many other factors have led to increased global integration of capital markets. More investors may be looking at international alternatives, rather than simply local or national options. Potential investors have more information about alternative investment opportunities around the globe and international investment decisions can be implemented more quickly than ever before.

These changes appear to have ushered in a new era of very large international investment flows. Choices from a large number of alternative international investment opportunities are based on a large number of international political and economic considerations.

In this changed environment, large trade imbalances appear to have become less immediately important in influencing international capital flows. This is probably particularly true for economies that have highly developed financial markets and whose overall economic performance is not highly dependent on trade.

The United States fits this definition. It has the world's largest and most highly developed capital markets. Trade is a relatively small portion of U.S. GNP and the trade deficit an even smaller portion.

Investors looking at alternative international investment locations appear not to have been strongly affected by three years of very large U.S. trade and current account deficits. Instead, a continued willingness to lend to the United States seems based more on other factors. These include the overall highly favorable U.S. macroeconomic performance and outlook

and the favorable U.S. business and political environment relative to other countries. The expectation of high real rates of return on investments in the United States has also probably been an important factor. On the other hand, foreign investors face the risk of asset depreciation if there are declines in the value of the dollar.

But although recent international investor decisions seem to have discounted the significance of large U.S. trade deficits, that situation is unlikely to continue indefinitely. In the longer term, continuing large trade deficits will have "feed-back" effects on capital flows. For example, if the cumulation of large current account deficits continues rapidly to increase the U.S. international debtor position relative to U.S. GNP, international investors will ultimately be less willing to invest in the United States. If this occurs, capital flows will alter, forcing changes in exchange rates and relative international price and income levels that will narrow or, perhaps, eliminate the U.S. trade and current account deficits. In recent years, however, broader and more immediate considerations by international investors have governed and large capital inflows drove up the price of the dollar despite very large and rapidly growing trade deficits.

PERCEIVED CAUSES OF THE TRADE DEFICIT

The Overly Strong Dollar

Heavy net capital inflows to the United States and the strong global demand for dollar-denominated assets pushed the dollar exchange rate higher and higher over the 1980-85 period. The exchange rate rise held down the price of foreign imports and raised the price of U.S. exports to foreign buyers. The result was a rapid increase in U.S. imports, reduced U.S. exports, and a growing U.S. trade deficit.

Assessments of the portion of the total trade deficit due to the dollar rise and to other factors are problematical and of limited usefulness since, in a sense they focus on immediate rather than underlying causes of the trade deficit. That is, the exchange rate is not itself an independent variable, but rather is the result of supply-demand relationships that stem from many domestic and international macroeconomic factors. Estimates by various sources, however, have attributed from about half to as much as two-thirds of the growth in the deficit since 1982 to the strong dollar.

Stronger U.S. Economic Growth

Faster economic growth in the United States than abroad has been an important factor in widening the U.S. trade deficit, especially in 1983 and 1984. Growth in U.S. exports is highly dependent on economic growth of our major trading partners. The lagging 1983-84 post-recession recovery abroad—especially in Western Europe—curbed U.S. export growth. At the same time, rapid U.S. economic growth in 1983 and 1984 stimulated record U.S. imports.

In 1985, however, growth rate differentials significantly narrowed or disappeared as the U.S. economy slowed from its fast 1984 growth rate (Table 8.1). Economic growth in 1985 fell to 2.3 percent, compared to the 6.6 percent pace in 1984. In fact, U.S. growth in 1985 lagged significantly behind Japan, the East Asian NICs, and Canada and was about the same as growth in the EC. The 1985 U.S. economic slowdown helped to brake import growth to a 6 percent rate, markedly slower than the record 24 percent jump in 1984. But despite generally higher growth abroad, U.S. exports to most major trading partners declined in 1985.

An important factor in the rapid growth in U.S. imports is the fact that U.S. imports—especially manufactures imports—are relatively sensitive to increases in U.S. economic growth. Empirical evidence indicates that each one percent growth in U.S. GNP increases U.S. imports by about 2 to 2.5 percent. Moreover, the U.S. propensity to take in more imports as GNP increases is significantly higher than the import propensities of our major trading partners. For example, some estimates indicate that for each one percent growth in Japanese GNP, Japan's aggregate imports increase by only around one percent. This divergence in national import propensities has significant implications for future U.S. trade performance.

Table 8.1
U.S. and Foreign Real GNP Growth Rates*
1981-1985

	1981	1982	1983	1984	1985
United States	2.5	-2.1	3.7	6.6	2.3
Canada	4.0	-4.2	3.0	4.3	4.0
Japan	4.0	3.2	3.0	5.8	5.0
EC	-0.3	0.5	0.8	2.3	2.3
East Asian NICs**	7.4	3.9	7.8	9.1	7.3
All LDCs	1.4	0.9	0.5	3.5	4.1

* Average annual growth rates.
** Includes Hong Kong, Singapore, South Korea, and Taiwan.

LDC Debtor Trade Adjustments

Recent LDC export expansion drives and import cutbacks are a direct result of changes in international capital flows. Prior to 1982 many LDCs were incurring large current account deficits financed by net inflows of foreign capital, much of it from the United States. When in 1982 the international debts of several LDCs reached levels at which they encountered debt-servicing difficulties, the growth of net new foreign lending to LDCs slowed dramatically. Net new U.S. bank loans to Latin America rose by $9 billion in 1982, were virtually flat in 1983, and increased by only $2 billion in 1984 to $86 billion. U.S. outstanding bank loans to Latin America dropped sharply to $82 billion at the end of 1985, $2.6 billion less than for 1982. These capital flow changes forced major current account

adjustments on debtor countries. Necessarily, the adjustments were largely in merchandise trade—exports were expanded and imports cut to produce the income necessary to service their debts.

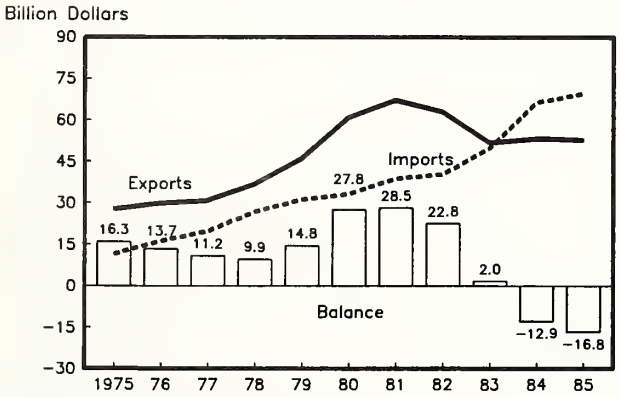
The changes in capital flows—the reduction in net new lending to LDCs that mandated changes in trade flows—had a major worsening effect on the U.S. trade balance, especially in manufactures. The LDCs—particularly in Latin America—have been important U.S. manufactures export markets. In fact, about three-fourths of total U.S. exports to LDCs are manufactures and developing countries in 1981 took nearly two-fifths of all U.S. manufactures exports.

In 1981, the United States posted a manufactures trade surplus of $28.5 billion with the LDCs (Figure 8.2). By 1985, this surplus had turned into a deficit of $16.8 billion, a swing of $45.3 billion in just three years.

Throughout the 1980s, the United States has absorbed a large portion of the exports of LDCs, especially exports of the high-debt LDCs. (See special topic "Who is Buying LDC Manufactures?" in Chapter 11.) U.S. imports of manufactured goods from these countries more than doubled from 1980 to 1984, rising from about $34 billion to almost $70 billion. Japanese imports of LDC manufactures over the same period rose by only $2 billion, while EC imports actually declined

Figure 8.2

U.S. MANUFACTURES TRADE WITH LDCs, 1975–85



from $31 billion in 1980 to $26 billion in 1984. More recently, the United States in 1985 bought about 62 percent of the industrialized country imports of manufactures from LDCs, up from 53 percent in 1982.

The effects on the U.S. trade balance of the LDC debt problem are probably even larger than indicated by the swing in the trade balance since 1981. If earlier trends in growth of U.S. exports to these countries had continued, a 1985 U.S. manufactures surplus with LDCs significantly larger than the $28.5 billion 1981 surplus might have been reasonably expected, rather than the $17 billion deficit actually achieved.

It is important to recognize that, so long as the flow of new capital to LDC debtor countries is restricted, they will need to continue export drives and to restrict their imports. In such an environment it will be very difficult to significantly change the U.S. trade balance with these countries, since they must maintain merchandise trade surpluses to enable them to service their foreign debt.

Foreign Trade Restrictions

Foreign trade restrictions are not a major cause of the growth in the U.S. trade deficit. While clearly limiting the ability of many companies to sell overseas, and although America's trade deficit would almost certainly be smaller if other countries removed all their barriers to U.S. exports, such restrictions are clearly not the chief cause of the trade deficit. The U.S. trade deficit has significantly worsened only since 1982, but many trade restrictions have been in force much longer. Moreover, in such areas as autos, steel, and textiles and apparel, the United States has introduced its own trade restrictions to limit U.S. imports, with effects on the trade balance.

Declining U.S. Competitiveness

Perceived declines in U.S. "competitiveness" are not necessarily a significant cause of the current deficits. International trade competitiveness is an elusive concept. The trade balance is a very poor measure of competitiveness, since deficits can ultimately be eliminated by some—albeit undesirable—combination of exchange rates, domestic economic performance and other factors; e.g., a very weak dollar that reflects poor terms of trade and/or a U.S. recession that cuts import demand. U.S. competitiveness is, however, extremely important, though manifested in ways other than the trade balance. (The role of competitiveness is assessed in Chapter 10. The problems of measuring international competitiveness are discussed in the Chapter 11 special topic "U.S. International Competitiveness: Conceptual and Measurement Problems".)

SUMMARY

The fundamental cause of the growth of the U.S. trade deficit in recent years has been the divergent macroeconomic policies and developments in the United States and major foreign economies—especially Japan and several Western European countries. The United States and these other major nations travelled different roads in coping with high inflation at the beginning of this decade and in fostering economic recovery following the major global recession in 1981-82. These divergent policies, together with long-standing structural differences in the U.S. and many foreign economies, facilitated net international financial flows into the United States, despite the growing U.S. trade and current account deficits. These net inflows were manifested in developments perceived as the immediate causes of the deficit growth—the overly strong dollar, stronger U.S. economic growth, and sharp cutbacks in LDC debtor imports.

9

TRADE AND CURRENT ACCOUNT OUTLOOK

U.S. trade performance—like most other economic phenomena—cannot be precisely forecasted because it is affected by countless variables which cannot be accurately foreseen. Only short-term projections are likely to be close to the mark. Some key determinants and longer term tendencies are, however, identified in this chapter.

Trade and resulting current account deficits at the 1985 ratios to GNP cannot be sustained indefinitely. A narrowing of trade and current account deficits requires continuing U.S. and international macroeconomic changes that will shrink the recent net inflows of foreign capital into the United States. Returning to current account surpluses would require that the United States again become a net capital exporter.

Moving toward a more sustainable current account position while maintaining strong U.S. domestic investment and economic growth implies, among other changes, reduction or elimination of government deficits and, perhaps, increased U.S. saving rates. Because these changes are likely at best to be only gradually accomplished, at least some substantial further growth in the U.S. international debtor position is likely.

THE NEAR TERM OUTLOOK

U.S. current account deficits will likely remain large in 1986 and 1987, with results dominated by merchandise trade performance which, in turn, will be largely a function of manufactures trade.

Merchandise Trade

The merchandise trade deficit for 1986 will likely be about the same or somewhat higher than the 1985 level ($148.5 billion c.i.f. basis and $124.3 billion balance-of-payments basis). Continued growth in 1986 of the manufactures trade deficit seems likely. The 1987 merchandise trade balance is much less predictable. The deficit should decline significantly in 1987, but on a c.i.f. basis it may be still well above the $100 billion level. Several factors will be key in determining the final outcome.

U.S. Economic Growth Rates. Given a U.S. propensity to increase non-oil imports by roughly 2 percent for each one percent of growth in U.S. GNP, the level of imports—and the trade balance—is very sensitive to U.S. economic performance. For example, other things equal, the projected 4 percent economic growth for 1986 could, after lags, increase U.S. imports by $8 billion to $10 billion annually.

Economic Growth Abroad. Foreign economic growth may add to U.S. exports, but there is little evidence of a strong renewal of growth in key industrialized country export markets sufficient to markedly increase U.S. exports in the near term. The need for LDC debtors to maintain export surpluses, regardless of whether their economic growth is slow or rapid, also has important implications for U.S. trade performance. Moreover, U.S. exports are generally less responsive to growth abroad than are U.S. imports to U.S. economic growth.

Dollar Exchange Rate. The trade balance effects of exchange rate changes begin to be evident about 6 months following the change and up to 24 months are required for the full effect. Initial effects are perverse (the J-curve effect); i.e., a dollar decline initially acts to increase the dollar value of imports and, therefore, the deficit. Positive effects of the decline in the dollar that occurred in the last quarter of 1985 should begin,

however, to be felt in the last half of 1986 and should be fully effective in 1987.

The dollar decline experienced through early 1986 will have important effects on the U.S. trade balances for 1986 and 1987. These should not be overrated, however. As of the end of August 1986 the U.S.-Canada exchange rate was essentially unchanged from 1985 levels. Canada took 26 percent of U.S. manufactures exports in 1985, provided 19 percent of U.S. manufactures imports. Similarly, little or no change from 1985 levels had been experienced against most Asian NIC and other LDC currencies (LDCs took 31 percent of 1985 U.S. manufactures exports, provided 25.9 percent of manufactures imports). Principal dollar declines were against the EC currencies (22 percent of manufactures exports, 21 percent of imports) and Japan (7.4 percent of U.S. manufactures exports, 27 percent of imports). These declines will help to make U.S. goods more competitive against the products of Japan and the Western European countries. The improved U.S. competitive position will not only be evident in the domestic market and in Japan and Western Europe, but also in third country markets, including the Asian NICs and Canada.

The Asian NICs have been increasingly competitive with Japan in providing many consumer-oriented products. To the extent that Asian NIC currencies follow the dollar, a dollar weakening does not change their competitiveness in the U.S. market, but does make them more competitive in areas where currencies are strengthening against the dollar; e.g., Europe and Japan. Stability of LDC currencies against the dollar will inhibit increased U.S. competitiveness in Europe and Japan to some extent. Moreover, in a number of product lines, Japanese and other exporters, concerned about loss of shares in the U.S. market, can be expected to trim their prices to remain competitive with the Asian NICs and other LDC exporters.

Many foreign exporters may be able to reduce their foreign currency prices to mitigate the effects of a dollar decline. The fact that U.S. import prices as reflected in aggregate indices did not fall as the U.S. dollar appreciated over the 1980-85 period is an indication that many companies exporting to the United States did not reflect the dollar appreciation in their prices, instead increasing their profit margins. To the extent that earlier margins were fattened, they may now be able to trim markups and prices to accommodate to a good deal of dollar appreciation. Indeed, preliminary data through the first quarter of 1986 show only relatively modest increases in U.S. dollar import prices, despite significant declines in the dollar exchange rate vis-a-vis some other currencies.

LDC Debtor Country Trade. Some LDC debtor oil-importing countries (e.g., Brazil, Argentina, South Korea) will benefit from oil price falls and may be able to increase non-oil imports; oil-exporting countries (Mexico, Venezuela, Middle-Eastern OPEC countries), however, probably will have to curtail their imports. But all debtor countries must continue to maintain export surpluses needed to service their international debts. While lower interest rates will narrow to some extent the surpluses necessary to meet debt payments, no major near-term improvement in U.S. trade balances with developing countries as a group seems likely.

Oil Price Fall. Each $1 per barrel decline in the price of oil lowers U.S. oil import costs by almost $2 billion, assuming import volume remains constant. For example, if the 1986 price averages $10 per barrel below the 1985 average price of $26 per barrel, 1986 oil import costs will be roughly $18-20 billion lower.

This reduction in oil import costs does not, however, translate into a continuing equivalent improvement in the trade balance. Declines in the price of oil are expected, after some delay, to increase U.S. economic growth. In turn, this will increase U.S. imports. An oil price decline will also affect U.S. export prospects, improving the economic growth and import abilities of oil-importing countries, but also cutting the economic growth and import capabilities of oil-exporting countries. The latter group includes several key markets for U.S. manufactures (Mexico, Venezuela, Canada, Middle-Eastern OPEC countries). The net effect on the U.S. trade balance of these various crosscurrents is difficult to project. It should be positive, but probably less so than the immediate gain from reduced U.S. oil import costs.

Agricultural Exports. The decline in the dollar should aid U.S. agricultural exports, but the global oversupply situation is a more important factor likely to persist for at least the next few years. Agricultural exports will likely be lower in 1986 than in 1985, with little prospect for significant improvement in 1987.

Business Services Trade

The 1986 balance on business services trade may show modest improvements from the $200 million surplus of 1985. The potential for near-term gain is probably principally in reductions in the travel and passenger transportation deficits. Improvements in this account may occur if U.S. tourism abroad declines and foreign travel in the United States increases as foreign currencies strengthen against the dollar and as other factors slow U.S. travel abroad. But absent further sharp declines in the dollar, only modest improvement at best from exchange rate changes seems likely over the next year or two.

Net income from sales of proprietary rights (fees and royalties) could also improve somewhat as a result of currency translation effects from a decline in the dollar. The balance on other business services is unlikely to change significantly in the near term from the $3.6 billion 1985 level.

International Investment Income

The balance on international investment income will be affected by conflicting forces. The rising net debtor position will continue to narrow the U.S. investment income surplus, but stronger economic growth abroad may tend to increase the earnings on U.S. direct investments abroad. Moreover, a weaker dollar may have

favorable effects when foreign earnings are translated into dollars. Lower interest rates will tend to lower both U.S. interest receipts and payments.

Additions to the net debtor position are, however, likely to be the more powerful force over the next few years. Assuming an 8 percent return, each $100 billion addition to the net debtor position would decrease net U.S. investment income by about $8 billion. The net effect of these conflicting forces—currency translation effects, lower interest rates, a rising U.S. debtor position—is difficult to foresee. On balance, however, some modest continuing shrinkage in the surplus in the international investment income account seems likely over the next two years.

Other Current Account Items

No significant changes in the deficit on other goods and services seem likely. A weaker dollar may raise the cost of some defense payments abroad. Military sales contract exports may increase somewhat over the near term. But the deficit on unilateral transfers will probably continue to widen somewhat.

Merchandise Trade Dominance

An overview of recent current account performance and the near term outlook reveals that merchandise trade performance consistently dominates the current account balance and that the modest surpluses traditionally provided by other current account elements are declining. In 1980 a relatively modest merchandise trade deficit of $25.5 billion (balance-of-payments basis) was offset by a surplus of $27.4 billion in other current account elements, resulting in a current account surplus of $1.9 billion. By 1985, however, the surplus on non-merchandise trade elements had dropped to only $6.6 billion. Any significant increase in this small surplus over the next few years appears unlikely. Indeed, it is possible that the non-merchandise trade items of the current account could be in deficit in 1987, further adding to the current account deficits that will result primarily from expected large merchandise trade deficit in those years.

LONGER TERM OUTLOOK

Alternative Scenarios

Longer term projections of U.S. trade performance are even more tenuous than short-term predictions. Nevertheless, it seems clear that U.S. current account and trade imbalances must ultimately narrow, at least to levels that lower the rate of growth of the U.S. international debtor position below U.S. GNP growth rates. Changes have begun that should ultimately alter trade and capital flows. But it is not clear how rapidly and under what conditions trade deficits and capital inflows will narrow.

Reduction of U.S. trade deficits requires shrinking U.S. net capital inflows. International capital movements are determined by countless political and economic factors that cannot be foreseen. But two differing generalized scenarios in which U.S. net capital inflows and trade deficits may be reduced or reversed are:

- The U.S. government budget deficit decreases over the next few years, perhaps accompanied by increases in U.S. saving. This gradually reduces U.S. capital import needs and eventually returns the United States to a capital exporter position.
- Alternatively, the excess of U.S. investment spending and the government deficit over U.S. saving continues to generate capital inflow needs. But in a changing international environment, international investors in time begin to perceive U.S. investment opportunities as relatively less attractive than other foreign alternatives. *Inter alia,* this raises the price of U.S. borrowing and ultimately shrinks it.

U.S. Net Capital Inflow Needs Reduced. In the first scenario the total supply of international investment capital is increased relative to demand, offering the prospect of a "soft landing"—a reduction of the U.S. trade deficit with minimal global economic disruption. There are continuing cuts in U.S. budget deficits which reduce the need to attract foreign funds. Growth and import demand pick up in Western Europe and Japan, aided by domestic use of capital earlier exported to the United States. Oil prices hold at levels well below those of 1985. Industrial country real interest rates drop in recognition that inflation is being held in check. European and Japanese currencies appreciate against the dollar as investors react to a more even distribution of economic growth and reduced interest rate differentials among countries. The debt-ridden LDCs institute economic reforms that attract foreign capital. The LDCs also focus more of their export attention on the faster growing non-U.S. industrial country markets, and U.S. sales to these LDCs pick up, since they can afford more imports as a result of lower interest rates.

These and other factors lead to a narrowing of the U.S. trade deficit. The process would likely be gradual, however, perhaps taking four or five years to reach relatively balanced, sustainable U.S. current account balances—balances that are positive or, at a minimum, do not result in further growth of U.S. international debt relative to GNP.

U.S. Net Capital Inflow Needs Continue. This second generalized scenario is potentially more disruptive because the United States continues to be dependent on net capital inflows, competing in international markets for a limited supply of capital.

If the United States remains dependent upon capital imports, with investment spending and the government deficit exceeding U.S. saving, large trade deficits and rapid growth in the U.S. debtor position will continue. But in this situation, international investors might ultimately switch their preferences to non-U.S. alternatives for a variety of reasons. For example, growth abroad and return on investments abroad might improve. Alternatively, if a U.S. recession or a resurgence in U.S. inflation were to occur, these might make investing in the United States relatively less attractive.

There are, in fact, countless forces that may change

international investor preferences. But continued growth of the U.S. debtor position is one key factor that could ultimately critically influence international investor decisions. Continuing U.S. current account deficits could raise the U.S. debtor position to a level such that foreign investors would become increasingly less willing to further increase their U.S. holdings. This could initially manifest itself in rising interest rates and, finally, in sharp cutbacks in new lending. Rising interest rates and restricted inflows of new foreign capital could then force improvements in U.S. trade balances, but possibly at significant costs to the economy; e.g., high interest rates, inflation, and, ultimately, recession.

International investors seek the best international investment alternatives based on expected rates of return, relative risks, exchange rate expectations and a host of other factors. Because the future alternatives available to them cannot be foreseen, no one can foretell at what level of U.S. international debt investors may become reticent to increase further their U.S. holdings. Many analysts feel, however, that the size and strengths of the U.S. economy and U.S. political stability will continue to make increased U.S. holdings attractive to international investors, even at debt levels that could result from repeated large trade deficits over the next few years. (See "U.S. Debt In Perspective", Chapter 10.)

If the United States continues to need imports of large amounts of foreign capital and international investors continue supplying that capital at rates U.S. users are able to pay, substantial U.S. trade and current account deficits could continue for some years.

No one can foresee when and for what reasons capital flows will change—because of changes in U.S. savings vs. investment relationships, through changes in international investor preferences, or for other reasons. But it seems quite certain that large net capital inflows to the United States and corresponding large annual increases in the net debtor position—the 1985 change in the IIP was equivalent to about three percent of GNP—cannot continue indefinitely. The international economy is an equilibrium system, with capital and trade flows altering in response to changing conditions and investor perceptions. The long term outlook then, is that U.S. capital inflows (and trade deficits) will decline and, ultimately, probably reverse.

The changes in capital and trade flows that must occur will have significant implications for the United States and for the world economy. The longer these changes are delayed, the more potentially disruptive they will be. Some implications of the situation are described in Chapter 10.

10

FUTURE IMPLICATIONS OF U.S. TRADE AND CURRENT ACCOUNT DEFICITS

The trade and capital flow trends reflected in recent very large U.S. trade and current account deficits cannot be sustained indefinitely. Changes and adjustments lie ahead. The shrinkage of U.S. capital inflows and trade deficits that must ultimately take place poses significant longer-term problems for both the United States and its trading partners. The assessment that follows assumes that adjustment will occur, sooner or later. When and how rapidly these changes will occur, however, is uncertain.

U.S. DEBT IN PERSPECTIVE

In recent years, large capital inflows have quickly converted the United States from the world's largest creditor nation to a debtor nation. If these capital inflows are used to increase the volume and efficiency of U.S. production and if, in terms of national output, returns on the borrowed capital exceed the cost of servicing the borrowed capital, then the United States will benefit in the long term. The net benefits, however, will tend to be less than had the United States generated enough savings to supply its own investment capital.

In any event, the United States became the world's largest debtor by end-1985, passing Brazil, which at end-year 1985 had a debt of about $106 billion. There is, however, little comparability between the U.S. situation and that of Brazil and other LDC debtors. The end-year 1985 U.S. debtor position of $107 billion was only about 2.6 percent of U.S. GNP. Brazil's international debt is equivalent to roughly 40 percent of Brazilian GNP. Assuming current dollar growth of GNP of 4 percent annually, even a 1990 net debtor position of $800 billion—seen as a possibility by some analysts—would be only about 16 percent of 1990 GNP. Also, U.S. foreign debt is unique in that the United States is the only country able to borrow large amounts in its own currency. U.S. international debt is denominated almost exclusively in U.S. dollars and the United States does not have to obtain foreign exchange to repay its international debt. This frees U.S. debt-servicing payments from a major potential problem faced by most borrowers—depreciation of their currencies against the currencies in which the debt is denominated.

There are alternative ways of looking at debt burdens, however. Debt must be serviced by exports of goods and services. But many services cannot readily be exported, thus placing the great bulk of a debt servicing burden on merchandise exports. Assuming, for example, a 4 percent per annum growth in U.S. goods production, a 1990 debtor position of $800 billion would be somewhat over one-half of 1990 goods production and nearly 4 times 1985 goods exports.

Moreover, debt growth cannot continue indefinitely faster than GNP growth. The $118 billion 1985 current account deficit was equivalent to almost 3 percent of U.S. GNP. Continuing annual current account deficit-to-GNP relationships in this range would rapidly increase the ratio of cumulative U.S. international debt-to-GNP.

Also, the cumulative effects of increasing debt servicing costs cannot be escaped. As the net debtor position grows, interest payments on foreign-held U.S. securities and dividends and profit remittances on foreign direct investments in the United States will grow. Ultimately, payments will outweigh the receipts by U.S. investors from foreign holdings. The resulting net debt-servicing outflows will replace long-standing net inflows and make the United States even more dependent on

improvements in the merchandise trade account if it is to improve its current account position (see Chapter 6 for additional discussion of this issue.) For example, assuming an 8 percent debt servicing cost on an $800 billion debt generated a $64 billion international investment income deficit, a surplus of about $80 billion in merchandise and business services trade would be required to stop further debt growth—a larger surplus would be needed to reverse debt growth. Such surpluses would have to be accrued largely in merchandise trade; the vast majority in manufactures.

INFLATION RATES

Rising dollar costs of U.S. imports stemming from a decline in the dollar exchange rate—a necessary factor in narrowing U.S. trade deficits—will add to inflationary pressures in two ways. First, the costs of U.S. imports will increase. But these increases will also diminish competitive pressures on U.S. suppliers, who will find it easier to increase their prices. The strength of the inflationary pressures created is difficult to project. But the farther the dollar declines and the more the trade balance narrows, the greater the pressures will be.

MANUFACTURES TRADE

Manufactures trade will necessarily be the principal factor in a U.S. trade and current account performance improvement. Manufacturing output and employment will receive a boost from increased exports. Achieving current account balance will require a substantial manufactures trade surplus if a large U.S. international debtor position generates large debt servicing payments. A movement from a $107 billion 1985 manufactures trade deficit to a balanced or surplus position will have significant effects on the U.S. and foreign economies.

The U.S. Manufacturing Base

The recent very large and rapidly growing manufactures trade deficits have raised concerns that the U.S. manufacturing base is deteriorating and may wither away, leaving the U.S. a nation of "hollow corporations" that perform only financial and marketing services, with manufacturing mostly performed abroad.

The U.S. manufacturing base has not declined in an absolute sense. Industrial production in 1985 was at an all-time high, almost 17 percent above 1980. Manufacturing employment in 1985 was about 7 percent below its 1979 peak, largely because of productivity increases, but also because of a decline in the volume of U.S. exports. (See Chapter 11 Special Topic "Contribution of Exports to U.S. Employment".) Manufacturing employment would be significantly larger if U.S. manufactures exports had grown in parallel with manufactures imports.

It is not realistic to expect that the manufacturing base will wither away over the longer term, leaving the United States largely dependent on foreign sources for its manufactured goods. In fact, the net imbalance between U.S. manufactures exports and imports is unlikely to widen very much beyond the current deficit situation for several reasons.

Precise data on U.S. manufactured goods production are lacking. In 1985, however, the $107.4 billion U.S. manufactures trade deficit was equal to roughly 10 percent of 1985 U.S. manufactures output. In other words, total U.S. consumption of manufactured goods was about 10 percent greater than total U.S. production for both domestic consumption and exports.

Were the net U.S. manufactures deficit—and the shortfall between U.S. production and consumption of manufactures—to double to 20 percent of total U.S. manufactures output, a U.S. trade deficit (in 1985 terms) of over $260 billion would result. Such a deficit would be equivalent to about 6.5 percent of 1985 GNP and would, in itself, increase the U.S. international debtor position by about $230 billion each year it occurred. Growth in total international debt would accelerate even more rapidly each year as a result of rising debt-servicing costs.

No nation can without end incur trade deficits and borrow abroad in amounts that continue to raise its international debtor position in relation to GNP. The international economic system will ensure that very large imbalances do not persist indefinitely. The huge deficits and debt growth implied by even larger imbalances in manufactures trade than those already experienced would surely trigger adjustments in capital flows. Exchange and economic growth rates and other factors would alter. These changes would significantly narrow, if not eliminate, the trade deficits, particularly the manufactures trade deficits. Thus, because of the dominant role of manufactures in U.S. trade the United States cannot sustain very large, continuing manufactures trade deficits. In fact, over the longer term, the United States must export about the same amount of manufactures that it imports.

The workings of the international trade and financial systems thus ensure that the United States will maintain a very large manufacturing capability. A United States filled with "hollow corporations"—a nation without an extensive manufacturing capability that can export about as much manufactured goods as the nation imports—is not a plausible outcome. A large manufacturing base will be maintained because without large manufactures exports the United States cannot pay for its imports; it cannot continue over the long term to import a great deal more manufactured goods than it exports because other nations will not indefinitely be willing to continue building dollar balances.

The dominant role of manufactures in trade performance is not unique to the United States. Most industrialized countries are in a generally similar position. The great majority of world trade is an exchange of manufactured goods and the portion has been rising. In 1970, about 74.4 percent of world non-energy exports was manufactured goods. By 1980 the portion had risen to 79 percent and in 1984 it was 82.6 percent. Trade among developed countries is even more dominated by manufactured goods. In 1984 over 83 percent of industrial country non-energy exports and 79.5 percent of imports were manufactures. In short, non-energy international trade—particularly among industrial countries—is principally exchanges of goods produced

by manufacturing establishments. Thus, most industrialized countries are in a generally similar position to the United States; i.e., over the longer term most will have to maintain rough balances in their manufactured goods trade, or surpluses sufficient to cover the costs of imports of primary products. Few, if any, can sustain continuing very large manufactures trade deficits. Moreover, continuing huge manufactures surpluses resulting in very large current account surpluses by one or more large trading countries produce disruptive effects in the international economy and are also not sustainable indefinitely.

Although the international economic system will ensure that huge global imbalances in manufactures trade do not persist indefinitely and that the United States maintains a large manufacturing base, there is no assurance of a smooth, trouble-free solution to existing problems. Achieving "equilibrium", or sustainable balances in U.S. manufactures trade and in the current account could be a long-term process. Before returning to a more sustainable position, the manufactures trade deficit could rise above current levels, forcing more disruption and structural change and adjustment in U.S. manufacturing than might be optimal. A long period of disruptive changes would be dangerous because it would raise the risks of protectionist actions that would endanger the world trading system. Moreover, there are alternative ways—some less desirable than others—by which the United States could achieve a better balance in its manufactures trade. In fact, the way in which the United States achieves a more balanced manufactures trade may have important effects on real wages and living standards.

How The U.S. Moves Toward More Balanced Manufactures Trade

The United States can improve its manufactures trade balances—essential to improving its current account balances—in two fundamental ways:

- by maintaining its current share of non-U.S. export markets that grow more rapidly than in recent years; i.e., by capturing the same proportion of a more rapidly enlarging world trade "pie"; and/or
- by increasing its current share of world and home markets; i.e., by wresting a bigger portion of the world market "pie" from other nations.

A faster enlargement of world markets requires actions by other nations, including faster economic growth by other industrialized countries and improved import capabilities by LDC debtor countries. The greater the progress on these fronts, the less the pressure will be for the United States to increase its market share at home and abroad.

But even absent significant enlargement of world export markets, because the international trade and financial systems will ensure that huge manufactures trade imbalances—disequilibriums—do not continue indefinitely, one can be confident that the United States will maintain a large U.S. manufacturing base. There is no assurance, however, that U.S. manufacturing will be sufficiently internationally "competitive" to pay consistently increasing high real wages or that it will be able to generate the export values needed to pay for as large a volume of imports as might be desired. Neither does the continuation of a very large U.S. manufacturing base ensure that manufacturing will not decline in terms of total employment and as a portion of total GNP. Nor does the discipline enforced by the international trade and financial system preclude a growing foreign ownership of U.S. manufacturing.

The real returns to U.S. manufacturers and manufacturing wage earners will depend largely on how U.S. manufacturing becomes more internationally "competitive" vis-a-vis foreign goods. U.S. goods can become more saleable in international markets—and trade balances improved—through various developments. These include: more aggressive export sales efforts, improved quality, more technologically advanced products, better service, and more competitive international prices. Given the rapid transmission of technology and manufacturing know-how, however, competition is tending to be more and more price-based.

More competitive U.S. manufactures prices can result from a fall in the dollar exchange rate and through cuts in production costs that are passed on to buyers. Lower production costs can be achieved by improved productivity/efficiency, but also by lower wages. If U.S. manufacturing competitiveness is restored solely or largely through a deterioration in the terms of trade—e.g., through relative wage cuts and a dollar decline—the effects on real wages and U.S. living standards will be unfavorable.

The key to improved competitiveness of U.S. manufacturing consistent with rising real wages is improvement in productivity/efficiency. These can be achieved through investment in human capital and in new technologies and equipment, and through the application of traditional American know-how and ingenuity to manufacturing. Such improvements, however, require new investment and take time to accomplish. Moreover, these changes may well lower the total number of U.S. workers engaged in manufacturing, even after achieving a better balance in manufactures trade. In fact, maintaining or improving manufacturing real wages implies strong productivity increases that will likely significantly lower manufacturing employment. Moreover, given that productivity increases are likely to be faster in manufacturing than in service industries, manufacturing may continue to decline as a portion of total U.S. output in current dollars. Similar trends, however, are likely in other industrialized countries.

Improved international competitiveness without real wage decreases also requires avoiding protectionist actions that would slow the pace of industrial change. Trade restrictions designed to protect some inefficient producers may make new, emerging industries less competitive, hobbling them with the costs of hanging on to those that are less competitive.

THE DOLLAR "EQUILIBRIUM" RATE

Even with strong U.S. productivity gains, a decline in the dollar exchange rate may well be a major manifestation of the capital flow changes that will be required to move U.S. trade balances toward more sustainable levels. No one can accurately forecast at what rates of exchange the balance on total U.S. international transactions will be positive or, at a minimum, not result in further growth of the U.S. debtor position relative to GNP. Exchange rates are only one of the many variables that will alter in the trade adjustment process. Moreover, it is unrealistic to think in terms of a single dollar exchange rate as indicated by commonly cited exchange rate indices. There are differing, constantly changing rates with each trading partner. The commonly used aggregate indices include only some U.S. trading partners and hide significant differentials in rate changes with those partners. (The pitfalls of using dollar exchange rate indices are discussed in more detail in Chapter 9 and in "Dollar Exchange Rate: Performance and Caveats" in Chapter 11.)

Bearing in mind the limitations of referring to "the dollar exchange rate", several considerations indicate that even a fall of the dollar back to 1980 levels—the dollar was then considered by many to be *undervalued*—may not produce the relative balance in U.S. manufactures goods trade that existed in the early 1980s.

One key reason is that a dollar fall against industrial country currencies does little to affect U.S. trade with other countries whose currencies move with the dollar. For example, the currencies of several key LDC trading partners, including the Asian NICs, are not included in commonly cited exchange rate indices and tend to move with the dollar. The Asian NICs and several other LDCs have become increasingly important factors in U.S. trade.

Moreover, as of 2nd quarter 1986 the dollar had not declined against all key industrialized country currencies. In fact, the U.S.-Canada dollar rate remained essentially unchanged (Canada took 25.9 percent of 1985 U.S. manufactures exports, provided 18.8 percent of manufactures imports). Indeed, Canada is sufficiently dependent on U.S. trade—about 78 percent of Canada's total exports go to the United States—that the Canadian dollar is not likely in the near term to appreciate against the U.S. dollar to an extent that would significantly cut Canadian exports to the United States.

Also, U.S. productivity performance against several industrialized countries in recent years has not been impressive. During the 1980-84 period, for example, Japanese manufacturing productivity grew 24 percent, while the U.S. increase was only 17 percent. These productivity gains contributed to the relatively favorable domestic price performance in Japan vis-a-vis the United States in recent years. The lower inflation rates in Japan compared to the United States could have been expected to generate a real appreciation of the yen versus the dollar during the early 1980s, rather than the yen depreciation evident until early 1985.

These sharp increases in Japan's productivity are, however, only one indication of a continuing narrowing of a long-standing U.S. technological, manufacturing, and marketing edge that for many years supported high U.S. manufacturing wage levels and U.S. dominance in markets both at home and abroad. Many factors have contributed to this persistent narrowing—in some cases elimination—of earlier U.S. advantages. Manufacturing capabilities have been growing consistently abroad in both developed and developing countries, often at faster rates than in the United States. There has been continued technological progress abroad, both in developed and developing countries. Gains have been particularly strong in some developing countries; e.g., the four Asian NICs, which in 1985 provided 15 percent of U.S. manufactures imports.

Savings and investment rates have exceeded those of the United States in most industrialized countries and in several NICs. And rising educational levels and improving infrastructures abroad are better able than ever before to support efficient, high-quality manufacturing industries which produce not only basic products, but many sophisticated high-technology products as well.

This narrowing of the U.S. advantage does not mean that the United States has stood still. It has not. It simply means that other countries have improved their products and manufacturing and marketing capabilities more rapidly than the United States, narrowing the U.S. edge that still exists in many product areas.

Other changes have facilitated the growing use of foreign production capabilities. Faster international communications and transportation have speeded the transfer of technology and manufacturing abroad, sourcing by U.S. manufacturers in foreign countries, and foreign penetration of U.S. markets. Manufacturing abroad has also been aided by shifts of much of manufactures trade from basic industry outputs that require large physical capital investments to high-tech goods that require less physical capital and infrastructure for efficient production.

This narrowing of long-time U.S. advantages and increased competition from abroad has made it more difficult in a growing number of industries for remaining U.S. productivity advantages to offset generally lower wages abroad. These long-term trends, reinforced and accelerated in recent years by an overly strong dollar, have contributed to shifts in the strategies of some U.S. multinationals. Some have deemphasized exporting from the United States, increasing sourcing from foreign countries for both U.S. and foreign country markets. With U.S. manufacturing less competitive, they have put more emphasis on joint ventures abroad and the licensing and sale of technology, rather than on U.S.-based manufacturing.

At the same time, there has been an increased penetration of U.S. markets by foreign firms. They see the U.S. market—the world's largest and most open—as vital to them. They have built sales organizations and distribution networks to serve the U.S. market and will not be easily displaced.

As a result of these many changes, there may have been a significant decline in the equilibrium exchange

rate of the dollar—the rate at which growth of the U.S. debtor position will reverse or fall below the rate of GNP growth. The evolutionary changes that have occurred and their potential effects on trade flows cannot be measured accurately, but a moderate weakening of the dollar—even to the lows of 1980—will not necessarily reverse the recent trends toward internationalization of U.S. production, or restore U.S. manufacturing trade balances to 1980 levels.

IMPLICATIONS OF U.S. TRADE DEFICITS FOR THE WORLD ECONOMY

As noted previously, large, growing U.S. trade and current account deficits and accompanying rapid growth in the U.S. debtor position cannot continue indefinitely. A reversal in these recent trends, when it occurs, will have significant effects on the world economy. For the most part, these effects will be the mirror image of effects on the U.S. economy.

Potential Adjustment Problems

Sooner or later, U.S. trade and current account imbalances will narrow. When the net inflow of investment into the United States begins to shrink, trade flows must also alter, narrowing the U.S. trade and current account deficits. The adjustment in trade flows must necessarily be primarily in the manufactures trade segment of the merchandise trade account. These changes are potentially difficult and disruptive, both for the United States and its trading partners.

Since 1983, expanding U.S. trade deficits—particularly in manufactured goods—have stimulated foreign economies. But this stimulative effect from increasing U.S. imports can be only temporary and may have delayed inevitable structural adjustments in some foreign economies. Growth of U.S. deficits must ultimately slow, then stop, and then begin to shrink, with ensuing effects on the U.S. and other economies. Other things equal, deficits that continue at current levels will be neutral in their effects on foreign economies, neither stimulating nor retarding foreign growth and output. But shrinking U.S. trade and current account deficits will, in themselves, lower foreign growth potential, substituting a "drag" for the stimulus of recent years.

These effects may be delayed by events, but they cannot permanently be avoided. And the larger the cumulation of U.S. trade deficits and accompanying growth in the U.S. net debtor position, the greater the changes in merchandise trade flows required to return U.S. accounts to more sustainable positions and the more potentially disruptive the ultimately necessary adjustments will be.

Both U.S. and foreign economic policies need to foresee and compensate for the effects of shifting U.S. and foreign trade balances if uninterrupted strong global trade and economic growth are to be realized. Many foreign economies must take steps to become more dynamic and less reliant on continued extraordinary growth in U.S. imports and trade deficits. For example, the negative effects on export-dependent foreign economies can be offset by monetary and fiscal policy actions by those countries to stimulate more domestic investment and consumption.

Other industrialized countries will play critical roles in allowing and facilitating an orderly transition. Japan will be particularly important. Just as the United States cannot indefinitely sustain huge current account deficits, neither can the world trade and financial systems permanently sustain Japanese current account surpluses equivalent to some 3.7 percent of Japan's GNP.

Moreover, the manufactured goods portion of total world goods trade seems likely to continue to enlarge, for a variety of reasons. Energy and other primary product prices have declined recently and significant price strengthening in the near term seems unlikely. The global integration of manufacturing seems likely to continue. These and other factors will tend to increase the dominance of manufactures in total goods trade and lead to intensified international competition. With world trade—particularly trade among industrialized countries—increasingly becoming an exchange of manufactured goods, huge manufactures trade imbalances will become even less acceptable. For example, just as huge U.S. manufactures trade deficits will be unsustainable, neither can Japan, in a viable international trading and financial system, continue inordinately large manufactures exports offset by only meager imports of manufactured goods.

The changes required will necessitate very significant reorientations of economic and social policies and major restructuring of the Japanese economy. Other economies will face similar changes, though perhaps to a lesser degree.

Capital Flow Changes

Restructuring foreign economies will require substantial investment growth. Reductions in U.S. trade deficits will remove the stimulation to foreign economies provided over recent years by increased net exports to the United States. But the accompanying reductions in U.S. net capital inflows will make more investment capital available to foreign economies and make it easier for them to finance the investment they need to achieve strong, long-term growth not dependent on increasing U.S. trade deficits.

MUTUAL BENEFITS AND RESPONSIBILITIES

The U.S. trade deficit is not just a U.S. problem, it is a global problem. It requires difficult steps for the United States, but it also requires difficult actions by other nations.

The current huge imbalances in trade—the very large U.S. deficits accompanied by very large Japanese and West German surpluses—cannot persist indefinitely. World trade must be an *exchange* of goods and services—a two-way street, not a one-way street. Exports are not an end unto themselves, but a means to pay for needed imports.

Huge surpluses are as great a threat to the world trading system as huge deficits. National economic strategies based on continuing accumulation of inordinately large trade and current account surpluses are as ill-conceived as strategies based on unending deficits and borrowing.

While the international trade and financial system assures that huge imbalances cannot persist indefinitely, governmental policies that encourage or amplify imbalances or resist or slow the international adjustment process are costly and risk disaster for all parties concerned.

The social and economic costs of unsustainable huge trade imbalances are manifold. Increasingly, imbalances will be in manufactured goods trade. National overinvestment in manufacturing for generating huge export surpluses will result in economic losses and will pose serious social problems when adjustment finally occurs. Deficit countries incur similar inordinate economic and social costs in industrial restructuring caused by unduly wide swings in manufacturing trade balances. Large merchandise trade surpluses required of LDCs to service debt also pose major problems both for the debtor countries and those countries that must absorb the goods.

All industrialized countries will experience structural change and displacement of some industries as a part of the normal process of implementing new technology and raising living standards. Foreign trade and, especially, fluctuations in national trade balances, will speed and amplify this normal structural change process. Trade imbalances are a normal part of the international capital reallocation process. But surpluses or deficits reaching 3 or 4 percent of nations' GNPs are not sustainable and unnecessarily increase the economic and social costs of accomplishing change and progress.

Moreover, because huge imbalances increase adjustment problems and costs, such imbalances raise protectionist pressures that pose serious threats to the world trading system. Continuing large U.S. trade deficits have increased sentiments for protectionist actions in the United States. But the shrinking of U.S. trade deficits that lies ahead will translate to a deterioration in the trade accounts of some U.S. trading partners and may raise protectionist sentiments abroad.

The difficult task ahead is two-fold: first, to shrink existing imbalances—both national deficits and surpluses—to sustainable levels while maintaining an open international trade system and second, to coordinate national policies in a way that precludes unduly wide swings in capital and trade flows in the future.

Significant progress toward these goals has been made. The United States has maintained the world's most open economy while working toward a long-term solution to the problems of the international trade system. It has taken steps designed to reduce and, ultimately, perhaps eliminate the gap between saving and expenditures for investment and the government deficit. Legislation to narrow the federal budget deficit is in place. Agreement in principle has been reached with our major industrial-country trading partners to more closely coordinate macroeconomic policies and prevent disorderly movements in currency exchange rates. The Administration has developed practical proposals for addressing the LDC debt problem. In addition, the United States has led the movement toward a new round of multilateral trade negotiations designed to improve the international trade environment, and has diligently negotiated bilateral trade arrangements that deter economic instability and preserve basic equity in our trading relationships.

But many difficulties lie ahead. The United States must continue to bring into better balance the relation between its saving and investment and government spending. Japan, and some other industrialized countries must move away from dependency on export surpluses for employment and economic growth and rely more on increased domestic consumption and investment. Recent complaints by Japanese businessmen about the negative effects on Japanese firms of the rapid appreciation of the yen illustrate the adjustment problems that must ultimately occur when a nation becomes "hooked" on increasing export surpluses to generate economic growth.

Less developed countries must take the difficult, but necessary steps to promote the confidence of their own citizens in their economies. A lack of confidence has been evidenced by the large quantity of capital that has moved from many of the LDC debtors to developed countries in recent years. So long as capital flight continues, additional foreign lending will not solve the problems of the debtor countries.

The United States has advanced programs to deal with existing problems and longer term needs. A more integrated international trade and financial system has produced unprecedented international growth and prosperity. But it also places new, unprecedented responsibilities on individual members to act in a fashion that will preserve a mutually beneficial system. Greater international cooperation and coordination than ever before will be required to maintain and enhance an open international trading system.

11

SPECIAL TOPICS

This chapter contains summaries of special topics relevant to U.S. trade performance that are drawn from more detailed research papers prepared by the Office of Trade and Investment Analysis. Included are:

- U.S. Trade With Canada
- The Growing U.S.-Japan Trade Imbalance
- Who is Buying LDC Manufactures?
- Industrialized West's Trade With the Centrally-Planned Economies
- Changing Trends In U.S. Petroleum Imports
- Contribution of Exports To U.S. Employment
- State & Metropolitan Export Profiles
- U.S. International Competitiveness: Conceptual and Measurement Problems
- The Harmonized Trade Data System
- Dollar Exchange Rates: Performance and Caveats

U.S. Trade with Canada: Our Largest Trading Partner

By Joanne Tucker

U.S. trade with Canada largely depends on U.S. economic conditions, especially in the automotive sector. Absent a significant U.S. economic downturn, large U.S. trade deficits with Canada will likely continue.

INTRODUCTION

The United States and Canada share a 3,000 mile common border. Across it passes the largest bilateral trade flow in the world. Merchandise trade between the two countries totalled $116.7 billion in 1985, nearly one-half higher than in 1980. The bilateral relationship is the largest for both countries, although in 1985 Japan replaced Canada as the largest supplier of U.S. imports.

Approximately one-fifth of U.S. merchandise trade (both exports and imports) is with Canada. This is a surprisingly high share since Canada, with a population of only 25 million, has about one-tenth the population of the United States. For Canada, however, the trading relationship is even more important. In 1985, the United States accounted for 78 percent of Canada's merchandise exports and 71 percent of its imports. Since 1980, Canadian dependency on the U.S. market has grown.

RECENT U.S-CANADIAN TRADE DEVELOPMENTS

In recent years, a traditionally small U.S. trade deficit has given way to growing deficits with the 1985 deficit reaching a record $22.2 billion (Figure 11.1). Last year's deficit with Canada was the second largest U.S. bilateral trade deficit—topped only by the almost $50 billion deficit with Japan. Canada's largest bilateral trade surplus by far is with the United States. Recent enlargement of the U.S. deficit with Canada in large part reflects high U.S. economic growth, especially during 1983-84. In contrast to the growth of the U.S. trade deficit with other major industrial countries, the dollar has not been a principal factor in the growth of the deficit with Canada.

The U.S. trade balance with Canada has deteriorated in nearly all areas—manufactures (primarily motor vehicles and parts), crude materials, fuels, and agricultural products. Growth in the manufactures trade deficit, how-

ever, has been the primary cause for the growth in the overall U.S. trade deficit with Canada, accounting for two-thirds of the total enlargement (Figure 11.2).

Figure 11.1

U.S. MERCHANDISE TRADE WITH CANADA, 1970–85

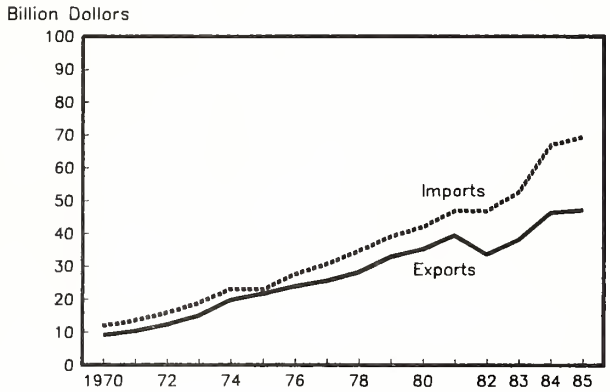
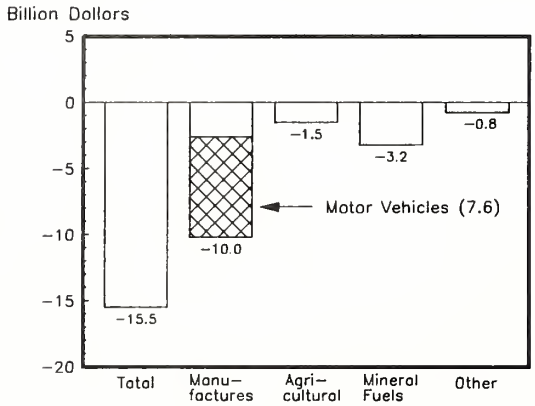


Figure 11.2

CHANGES IN U.S. MERCHANDISE TRADE BALANCES WITH CANADA, 1980–85



U.S. Export and Import Trends [16]

Excepting 1982, a recession year, U.S. exports to Canada have been on an upward trend. A new peak was reached in 1985 when exports hit $47.3 billion. This is in sharp contrast to U.S. export behavior with other major industrial trading partners. U.S. exports to the majority of these countries still have not rebounded to 1981 levels. In 1985 the Canadian share of U.S. exports rose to 22 percent, up from 16 percent in 1980. U.S. export growth, however, is deceiving, since much of it is in motor vehicle parts and components that return to the United States after processing or assembling in Canada.

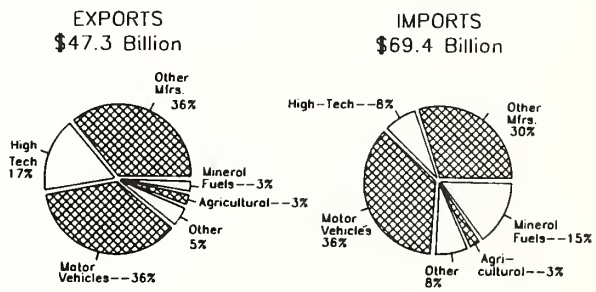
After stagnating in 1981-82, U.S. imports from Canada soared during 1983-84, rising by 43 percent. Most of the growth occurred in 1984 when U.S. imports surged 27 percent. As a result of slower 1985 U.S. economic growth, imports in 1985 rose only 3.8 percent. With the 20 percent surge in U.S. imports from Japan last year, Japan replaced Canada and became the largest supplier to the U.S. market. The Canadian share of U.S. imports increased from 16 percent in 1980 to 19 percent in 1985.

SECTORAL TRENDS IN U.S.-CANADIAN TRADE

U.S. trade with Canada is dominated by trade in manufactures (Figure 11.3). Manufactures account for 90 percent of U.S. exports to Canada and for three-fourths of U.S. imports.

Figure 11.3

COMPOSITION OF U.S. MERCHANDISE TRADE WITH CANADA, 1985



Manufactures Trade

The bulk of U.S.-Canadian trade in manufactures centers on trade in motor vehicles and parts, office machinery and ADP equipment, aircraft, and scientific instruments. In 1985 Canada accounted for 26 percent of total U.S. manufactures exports, up from 18 percent in 1980. In fact, nearly half of the increase in U.S. manufactures exports in 1985 was accounted for by Canada. Canada accounts for about the same share of U.S. manufactures imports as as it does of total U.S. imports—19 percent.

U.S. manufactures trade with Canada was in surplus until 1982 (Figure 11.4). Since then, the balance has been negative, with the 1985 manufactures deficit reaching $8.2 billion. The manufactures deficit, however, was substantially smaller than the overall U.S. merchandise trade deficit with Canada. The United States has maintained a $3 billion surplus in high-technology trade while the balance in other manufactured goods—mainly motor vehicles and parts—has deteriorated. The deterioration in the

[16] U.S. and Canadian statistics on bilateral trade flows often differ significantly, primarily because of shortfalls in recording of U.S. exports. Export reporting is highly dependent on the voluntary compliance of the exporter. U.S. exports transported by land to Canada are especially likely to go unreported, since reporting may be based on the trucker voluntarily stopping at the border and depositing documents in an unattended box. In recent years, estimates indicate that about 12 percent of U.S. exports to Canada have not been reported to U.S. authorities. As a result, the Canadians have recorded receipt of $5 to $6 billion more per year in imports from the United States—which are carefully documented by Canada—than the United States has recorded as exports to Canada. Under reporting of Canadian exports to the United States is less severe.

An annual reconciliation process conducted jointly by the United States and Canada indicates net overstatement by the United States of its merchandise trade deficit with Canada by amounts ranging in recent years from $2.2 to $4.6 billion. The Bureau of Economic Analysis' quarterly balance-of-payments data incorporate the results of the U.S.-Canadian reconciliation process and thus give a more accurate picture of U.S.-Canadian trade than do the monthly merchandise trade figures. A commodity breakdown of trade data on a reconciled basis is not available.

manufactures trade balance can be attributed principally to the growth in the deficit on motor vehicles trade (Figure 11.5).

Figure 11.4

U.S. MANUFACTURES TRADE WITH CANADA, 1980–85

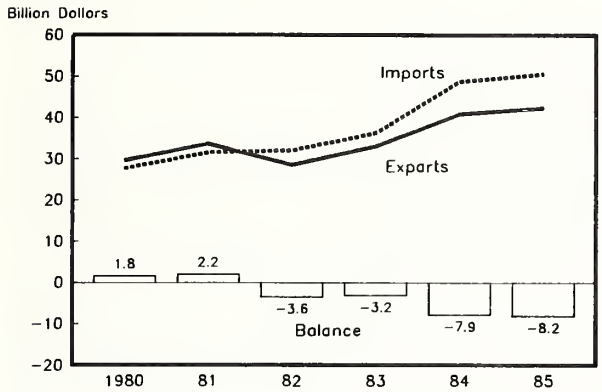
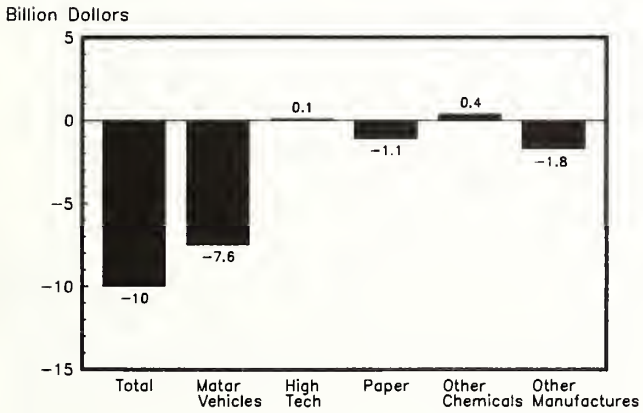


Figure 11.5

CHANGES IN U.S. MANUFACTURES TRADE BALANCES WITH CANADA, 1980–85



Motor Vehicles Trade. By far the largest component of U.S.-Canada manufactures trade is motor vehicles and parts traded under a duty-free trade agreement—the so-called Automotive Products Trade Agreement (APTA)—between the two countries. [17] Nearly half of U.S.-Canadian manufactures trade consists of automotive products. Prior to the signing of APTA, automotive trade between the two countries was insignificant. Since then, two-way automotive trade had expanded from $700 million in 1964 to over $42 billion in 1985.

Motor vehicles and parts exports to Canada have nearly doubled since 1980 to $17.2 billion in 1985, while imports nearly trebled to $24.7 billion. Motor vehicle parts (including engines) are the largest export item, accounting for 54 percent of total exports. Completed passenger cars, trucks, busses and chassis account for the remainder of exports. On the import side, motor vehicles (passenger cars, trucks, busses and chassis) are the primary item, accounting for almost two-thirds of imports. The finished products and parts shares for both imports and exports have been very stable since 1980. In terms of units, passenger car imports have almost doubled since 1980, while exports have grown only slightly (Table 11.1).

Table 11.1

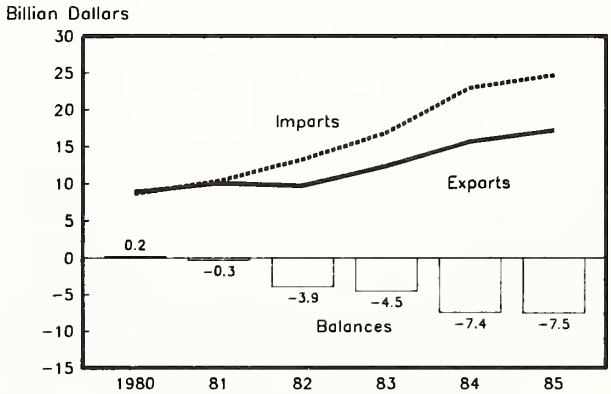
U.S.-Canadian Trade in Passenger Cars, 1980-85 (Thousands of units)

	U.S. Exports	U.S. Imports
1980	507	595
1981	476	564
1982	337	703
1983	527	836
1984	594	1,072
1985	685	1,145

Automotive trade was roughly in balance, running small surpluses or deficits, from the inception of the auto agreement in 1965 until 1982 when a $3.9 billion U.S. deficit was recorded (Figure 11.6). Since then, the deficit has expanded, reaching $7.5 billion in 1985.

Figure 11.6

U.S. MOTOR VEHICLES TRADE WITH CANADA, 1980–85



U.S. exports to Canada depend in large part on U.S. demand. A major portion of U.S. motor vehicle parts exports to Canada return to the United States in larger components or finished vehicles. The growth in recent years also reflects changing U.S. consumer tastes towards larger cars and vans, which are now primarily produced by U.S. affiliates in Canada. Over the years, U.S. companies have moved their large car operations to Canada and, more recently, have established the newer mini-van operations in Canada to take advantage of lower Canadian labor costs.

High-Technology Trade. High-technology manufactures are defined as those products which have the highest embodied research and development spending relative to

[17] APTA provides for the elimination of tariffs and other restraints on all motor vehicles trade between U.S. companies and their affiliates in Canada, thereby allowing industries of both countries to participate equitably in the expanding market of the two countries, and the creation of conditions in which market forces may operate to attain the most efficient pattern of investment, production, and trade in the motor vehicles industry

the value of shipments. High-technology trade with Canada is one category of manufactures trade in which the United States maintains a surplus, although the surplus has slipped from the high of $3.3 billion in 1983 to $2.8 billion in 1985.

U.S. high-tech exports to Canada rose to $8.1 billion in 1985 from $5.5 billion in 1980, growing at a faster rate than to any other world region. Canada accounted for 13 percent of these exports from the United States in 1985. Office machinery and ADP equipment was the fastest growing high-tech export to Canada, accounting for about 30 percent of the total in 1985. The second largest category of high-tech exports to Canada is telecommunications equipment and electronic components. This category includes semiconductors, radios, televisions, and tape recorders. Most of the remaining high-tech exports to Canada are comprised of aircraft and professional and scientific instruments.

High-tech imports from Canada grew to $5.4 billion in 1985 from $2.8 billion in 1980. Canada accounts for only 8 percent of U.S. high-tech imports, compared to 39 percent for Japan. About half of U.S. high-tech imports from Canada consist of aircraft, telecommunications equipment, and electronic components.

Other Manufactures Trade. The United States has run a deficit in other manufactures trade with Canada in most years since 1980. The 1985 deficit hit $3.5 billion. The largest components are paper, paperboard and newsprint and aluminum and aluminum alloys. The United States traditionally has run a deficit on paper and paperboard trade, which hit $4 billion in 1985.

Nonmanufactures Trade

Nonmanufactures trade is primarily in energy products, forestry products, and agricultural goods. Such trade accounts for the remaining third of bilateral merchandise trade. The United States traditionally has run a deficit on this trade, largely due to high U.S. imports of natural gas, crude petroleum and products, and wood and wood pulp.

Mineral Fuels Trade. U.S.-Canadian energy trade is dominated by U.S. imports of crude petroleum and products and natural gas. In 1985, crude oil and products accounted for 60 percent of imports, with natural gas accounting for the remainder. U.S. exports are principally coal and lignite (60 percent) and refined petroleum products.

Since the second oil price "shock" of 1978-79, U.S. imports of crude petroleum from Canada have more than doubled. In 1978, Canada was the ninth largest supplier of crude oil to the United States, supplying about 4 percent of total imports. By 1985, it had moved to second place (after Mexico), supplying 15 percent of total U.S. imports. The growth in oil imports from Canada reflects the U.S. trend of moving away from OPEC to non-OPEC sources.[18] This upward trend in imports from Canada is in marked contrast to declines in U.S. oil imports from OPEC countries since 1978. During the same period, U.S. imports of refined petroleum products have fluctuated, but reached a peak level in 1985. Natural gas imports have largely been on a downward trend over the period. U.S. exports of fuels to Canada—mainly coal and refined petroleum products—have declined in the 1980s.

Since 1980, the U.S. deficit on energy trade with Canada has increased each year, growing from a deficit of $5.1 billion in 1980 to $8.5 billion in 1985.

Forestry Products Trade. The United States is a large importer of Canadian forestry products, mainly wood and pulp and waste paper. Canada, which is self-sufficient in such products, imports insignificant amounts from the United States as well as the rest of the world. The U.S. deficit in this trade is sizable, reaching about $4 billion in 1985.

Agricultural Trade. Although agricultural trade with other countries is very significant to the United States and Canada—both major exporters—it is not as important bilaterally as with the rest of the world. In 1985, about 4 percent of U.S. agricultural exports went to Canada, while imports accounted for roughly 3 percent of total U.S. imports from Canada. U.S. farm exports to Canada primarily consist of fruits and nuts, while imports from Canada are mainly pork, live swine, and alcoholic beverages. In 1985, the United States posted a $1.3 billion deficit in its agricultural trade with Canada.

FACTORS BEHIND THE GROWTH OF THE BILATERAL MERCHANDISE TRADE DEFICIT

U.S.-Canadian trade is affected by U.S. economic growth more than by any other factor. The deficit's growth in the 1980s largely reflects the strong growth in the United States, especially during 1983-84. Between 1982 and 1984, U.S. growth was more than 8 percent. Given the United States' very high propensity to import (relative to Canada), the U.S. deficit with Canada has soared each year to record levels.

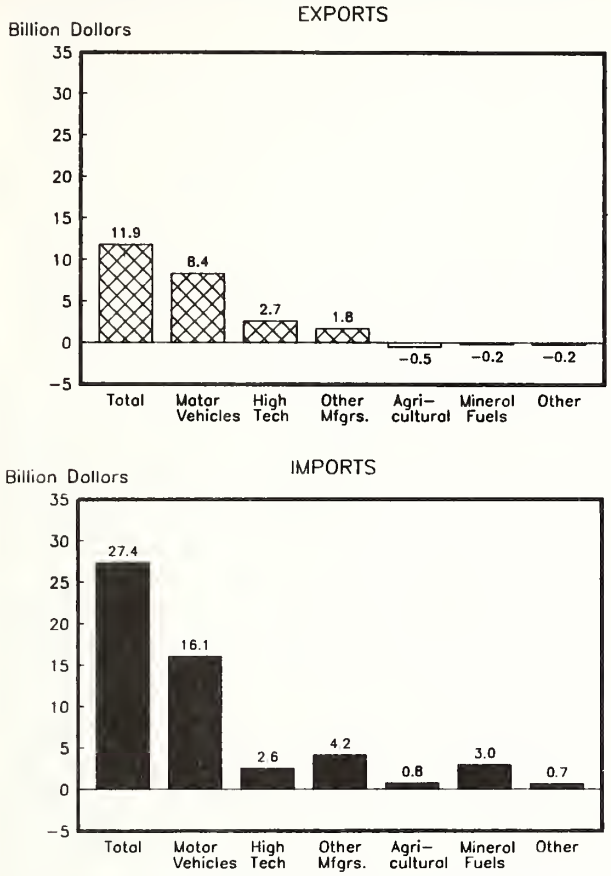
The growth in bilateral trade between the two countries is strongly influenced by automobile trade. About three-fifths of the growth in bilateral trade between 1980 and 1985 was due to the increase in automobile trade. Moreover, over 70 percent of the growth in U.S. exports to Canada during this period resulted from the growth in motor vehicles and parts exports (Figure 11.7). On the import side, 60 percent of the growth was attributable to imports of motor vehicles. The surge in automobile trade reflects in large part the booming U.S. automobile market during 1983-85.

Exchange rate changes do not appear to have been a significant factor in the growth of the U.S. trade deficit with Canada, compared to their role in the growth of the U.S. deficit with other industrialized countries. The U.S.-Canadian exchange rate has remained relatively more stable than the dollar's exchange rate with most other countries. Between 1980 and early 1985, the U.S. dollar appreciated in real terms by only 6.4 percent against the Canadian dollar, while appreciating considerably more *vis-a-vis* other major currencies.

[18] For a detailed analysis of U.S. oil import trends since 1978, see the special interest topic, "Changing Trends in U.S. Petroleum Imports," in this Chapter.

Figure 11.7

CHANGES IN U.S. MERCHANDISE EXPORTS TO AND IMPORTS FROM CANADA, 1980–85



OUTLOOK OF U.S.-CANADIAN MERCHANDISE TRADE

The United States and Canada will certainly remain major trading partners, whether or not upcoming free trade talks result in any removal of trade barriers between the two countries. The two countries are too economically intertwined to allow for any significant weakening of the trade relationship in the near future.

Although Canada contributed significantly to the record U.S. trade deficits with the world in the last few years, absent a significant U.S. recession, Canada is unlikely to make an important contribution to a reduction in the U.S. trade deficit, even though Canada is one of the few industrial countries whose economic growth is expected to outstrip that of the United States in the next 2 to 3 years. Given the structural changes in U.S.-Canadian automobile trade over the past six years, it will be difficult for the United States to significantly reduce its motor vehicles and parts trade deficit with Canada over the near term. This will be especially true if the Canadian dollar does not signficantly appreciate against the dollar. A significant appreciation seems unlikely. Indeed, given that 70 percent of Canada's manufactures exports are to the United States, the Canadian dollar probably must stay in a relationship to the U.S. dollar that maintains a favorable climate for Canadian exports. Moreover, the traditional U.S. deficit on trade in paper and newsprint is expected to remain.

The early 1986 declines in world oil prices will have a mixed affect on the U.S.-Canadian trade balance. U.S. imports of crude petroleum and products and natural gas from Canada are expected to fall in value terms. On the other hand, the specter of lower gasoline prices may fuel demand for larger U.S. automobiles, most of which are produced in Canada.

The Growing U.S.-Japanese Trade Imbalance

By Leyla Woods

The U.S. trade deficit with Japan will likely expand in 1986; even further moderate falls in the dollar below 170 yen per dollar cannot completely offset the structural factors which underlie the deficit.

INTRODUCTION

Much attention has been focussed in recent years on U.S.-Japanese trade problems, especially the huge and growing U.S.-Japan trade deficit. Although the 1985 deficit of almost $50 billion is the same share of the total U.S. deficit as in 1980, the absolute size and rapid growth in the deficit has awakened strong protectionist sentiments in the United States. Among the United States' top ten trading partners, Japan did not have the fastest growing bilateral trade surplus. But as the largest single contributor (about one-third) to the alarming U.S. global trade deficit in 1985, Japan has attracted the most interest and concern.

Although the overall merchandise trade deficit with Japan is frequently cited, less attention has been given to manufactures trade, the predominant element in total U.S.-Japanese trade flows. The U.S. manufactures trade deficit with Japan consistently and substantially exceeds the overall merchandise trade deficit. From $24 billion in 1980, the manufactures trade deficit grew to almost $60 billion in 1985. The bulk of this deterioration in the U.S. manufactures trade balance has been in non-high tech products. Since the United States runs only a modest surplus on its nonmanufactures trade with Japan, the manufactures trade balance largely determines the United States' overall trade position with Japan.

RECENT TRADE TRENDS

The U.S. trade balance with Japan worsened throughout the 1980s, deteriorating most substantially in 1984 and 1985 (Figure 11.8). From a $12 billion deficit in 1980, the imbalance grew to a deficit of almost $50 billion in 1985. In relative terms, the U.S. trade deficit with Japan was the same in 1985 as in 1980: in both years, the U.S. trade deficit with Japan was about double the U.S. trade deficit with Canada and equivalent to around one-third of the global U.S. trade deficit (Figure 11.9). The U.S. trade deficit with Japan thus expanded at the same alarming pace as the total U.S. trade deficit: both deficits more than tripled between 1980 and 1985.

Figure 11.8

U.S. TRADE WITH JAPAN, 1980–85

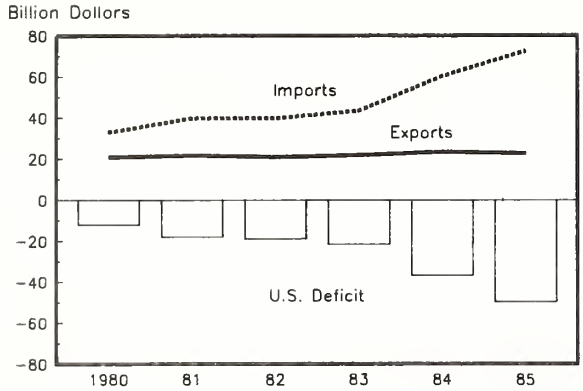
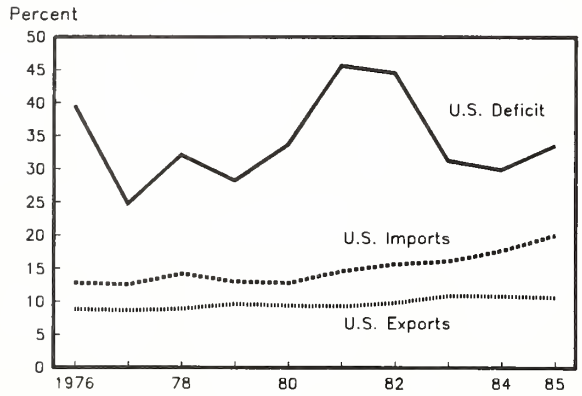


Figure 11.9

SHARE OF U.S. TRADE WITH JAPAN, 1976–85



The deterioration in the U.S. balance of trade with Japan was caused by a substantial rise in U.S. imports from Japan coupled with stagnation in U.S. exports to Japan. U.S. exports increased only 9 percent between 1980 and 1985 while U.S. imports rose 120 percent. Mirroring the trade deficit trend, import growth was concentrated in the 1984-85 period.

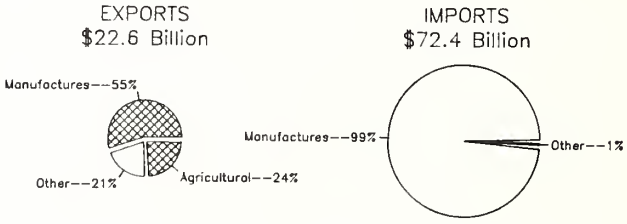
In 1985, Japan's exports to the United States surged 20 percent to $72 billion, and Japan overtook Canada as the leading supplier of U.S. imports. As a market for U.S. goods, Japan remained in second place with $23 billion in U.S. exports compared to Canada's $47 billion. In 1985, Japan provided 20 percent of total U.S. merchandise imports and absorbed about 10 percent of global U.S. exports.

Manufactures Trade

Trade in manufactures dominates U.S.-Japanese bilateral trade. In the 1980-85 period, manufactures accounted for between 40 and 50 percent of U.S. exports to Japan. Manufactures traditionally compose virtually 100 percent of U.S. imports from Japan (Figure 11.10). The overwhelming predominance of manufactures in U.S. imports conforms to Japan's overall trade pattern: lacking domestic natural resources, Japan imports mostly energy, food and raw materials and exports almost solely manufactures. Japan runs a large and rapidly growing trade surplus with the United States, which now completely offsets its perennial trade deficit in petroleum.

Figure 11.10

COMPOSITION OF U.S. TRADE WITH JAPAN, 1985
(In Percent)

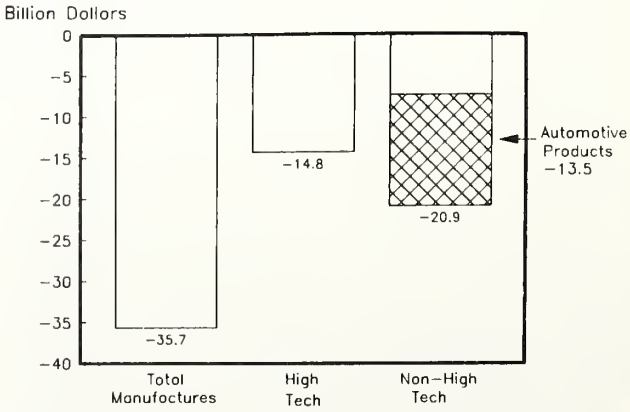


Manufactures trade between the United States and Japan exhibited the same pattern as total merchandise flows: a surge in U.S. imports in 1984 and 1985 and a consequent rapid deterioration in the U.S. trade balance. In contrast to the stagnation in total U.S. exports to Japan, U.S. manufactures exports grew almost 40 percent in the 1980-85 period. Manufactures imports, however, expanded 120 percent, swamping the rise in U.S. exports and causing the manufactures trade deficit to swell from $24 billion in 1980 to almost $60 billion in 1985.

Motor vehicles and parts account for about one-third of U.S. manufactures imports from Japan and high-technology products for another third. The balance of U.S. manufactures imports from Japan comprises a wide variety of goods, including iron and steel products, chemicals, and various consumer goods. Most of the deterioration in the U.S.-Japanese manufactures trade balance between 1980 and 1985 occurred in non-high tech products, mainly motor vehicles and parts. High-tech trade also accounted for a large share of the 1980-85 deterioration: $14.8 billion of the overall $35.7 billion increase in the U.S. manufactures trade deficit with Japan (Figure 11.11).

Figure 11.11

CHANGES IN U.S. MANUFACTURES TRADE BALANCES WITH JAPAN, 1980–85



Motor Vehicles and Parts Trade. Japan's exports of motor vehicles and parts to the United States increased

almost 120 percent between 1980 and 1985. Since U.S. exports of motor vehicles and parts to Japan are negligible, the U.S. trade balance in this category also deteriorated almost 120 percent, from a deficit of $11 billion in 1980 to $25 billion in 1985. Much of the increase in U.S. imports of Japanese motor vehicles and parts—and in the U.S. motor vehicles deficit—is due to a rise in the prices of Japanese cars, trucks and automotive parts exported to the United States. Under a "voluntary export restraint" agreement, Japanese automobile exports were held to 1.68 million vehicles between 1 April 1981 and 31 March 1984. The quota was raised to 1.85 million vehicles in the 1984 Japanese fiscal year (1 April 1984—31 March 1985). Since then, the Japanese have decided to limit their exports to 2.3 million vehicles a year. U.S. demand for Japanese cars in the 1980-85 period exceeded the available supply, allowing Japanese auto manufacturers (and U.S. auto dealers) to raise the prices of Japanese cars.

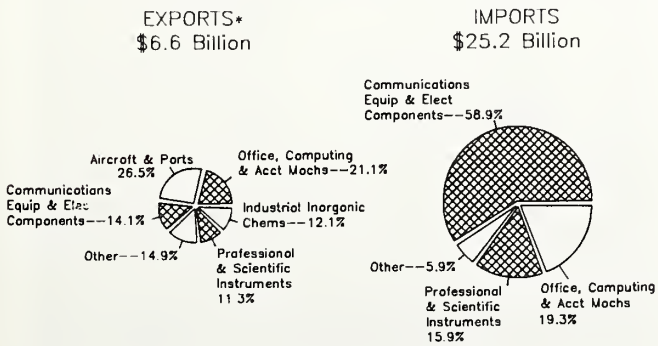
High-Technology Trade. The U.S. deficit in high-technology trade almost quadrupled between 1980 and 1985, ballooning from $3.8 billion in 1980 to $18.6 billion in 1985. U.S. imports of Japanese high-tech products almost tripled during this period while U.S. high-tech exports rose just over 60 percent. Over 1980-85, high-technology exports and imports grew roughly twice as fast as total manufactures, accounting for a rising share of manufactures trade. In 1985, high-tech goods provided 53 percent of U.S. manufactures exports to Japan—compared to 45 percent in 1980—and 35 percent of U.S. manufactures imports, up from 24 percent in 1980.

Telecommunications equipment and electronics components constituted over half of U.S. high-tech imports from Japan during 1981-85. Other top high-tech import categories were professional and scientific instruments, with 20 percent of the high-tech import total, and other computing and accounting and office machines, with 17 percent of the total (Figure 11.12). Leading U.S. high-tech exports during 1981-85 were aircraft (25 percent of total high-tech exports); office, computing and accounting machines (18 percent of the total); and telecommunications equipment and electronic components (14 percent).

In 1985, telecommunications equipment and electronic components trade accounted for about three-fourths of the high-tech trade deficit. Over 1981-85, the growing deficit in this category constituted about two-thirds of the total increase in the high-tech trade deficit.

Figure 11.12

U.S. HIGH-TECH TRADE WITH JAPAN, 1985



* Excludes Special Category Exports

Within high-tech trade, the United States runs small surpluses in aircraft and parts; drugs and medicines; and industrial inorganic chemicals.

Other Manufactures Trade. Within its overall manufactures trade deficit with Japan, the United States ran a small but persistent surplus in chemicals and related products during 1980-85. The United States also runs a surplus on trade in forest products. The Japanese forest products market—hitherto protected by import barriers—was one of the four areas targeted in the 1985 "MOSS" (market oriented, sector specific) talks, along with telecommunications, medical and pharmaceutical products, and electronics. These sectors were selected for negotiations because U.S. industry experts and trade officials deemed U.S. products competitive in these product groups and expected a substantial increase in U.S. exports of these goods if Japanese import barriers were lowered.

Nonmanufactures Trade

In 1985, nonmanufactures accounted for 45 percent of U.S. exports to Japan. Agricultural goods contribute over one-half of U.S. nonmanufactures exports, followed by crude materials and mineral fuels. Nonmanufactures account for barely 1 percent of total U.S. imports from Japan, so developments in U.S. nonmanufactures exports are the decisive influence on the nonmanufactures trade balance. During 1980-85, on average the United States ran a modest $11 billion surplus on its nonmanufactures trade with Japan.

Agricultural Trade. Japan is the United States' largest overseas customer for agricultural goods, absorbing almost 20 percent of global U.S. agricultural exports in 1985. Corn and maize is the leading U.S. agricultural export category to Japan. In fact, in 1985 Japan bought 25 percent of total U.S. corn and maize exports. The United States also exports meat, fish, fruits, and grains to Japan.

Crude Materials. Oilseeds and oleaginous fruits—overwhelmingly soybeans—is the top crude materials export category. Japanese purchases of these goods accounted for 22 percent of total U.S. sales of these items abroad in 1985. The Japanese also buy rough wood products, cotton, and metal waste and scrap from the United States.

Mineral Fuels Trade. Mineral fuels account for almost 10 percent of total U.S. exports to Japan. Because of the prohibition on U.S. exports of crude petroleum, Japanese imports of mineral fuels are concentrated in coal and lignite and refined petroleum products. These two product groups account for over three-fourths of U.S. mineral fuel exports to Japan.

FACTORS AFFECTING U.S.-JAPANESE TRADE TRENDS

Macroeconomic, governmental and structural factors exerted a substantial influence on U.S.-Japanese trade flows. The leading macroeconomic factors underlying trade developments stem from a surplus of savings in Japan coupled with a savings shortfall in the United States. The

traditionally high Japanese savings rate has provided an ample pool of loanable funds. Japanese government borrowing needs have been comparatively modest in the last several years, thanks to the program of "fiscal rehabilitation" adopted to reduce the government's large gross debt. Nominal investment demand in Japan has been weak. The excess of Japan's domestic savings over its domestic investment and deficit financing needs has resulted in low interest rates and an outflow of capital, particularly to the United States.

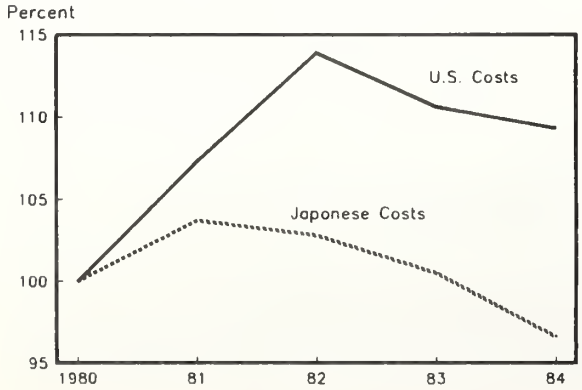
In the United States, relatively low domestic savings have fallen short of domestic financing needs as the federal government budget deficit has grown. Insufficient domestic savings combined with relatively tight monetary policy have led to high U.S. interest rates. High interest rates, in turn, have attracted the foreign capital needed to fund the federal deficit. The flow of capital out of Japan and into the United States tended to depress the value of the yen and raise the value of the dollar. The weak yen has encouraged Japanese exports and discouraged Japanese imports; the strong dollar has inhibited U.S. exports while stimulating U.S. imports.

Cyclical factors also contributed to the growing U.S. trade deficit with Japan. Nominal GNP grew significantly faster in the United States than in Japan in 1983 and 1984 and at about the same pace in both countries in 1985. Moreover, many econometric studies show that U.S. import elasticities are substantially higher than Japanese import elasticities. Hence, rapid economic growth strongly boosted U.S. imports, while more moderate Japanese growth rates and import elasticities tended to restrain Japanese import increases. In addition, recent Japanese economic growth has been fueled in large part by strong export growth; Japanese domestic demand has been weak, which tends to impede increases in imports.

Another key factor behind Japan's growing trade surplus with the United States was the improvement in Japan's competitiveness relative to U.S. performance. Unit labor costs have grown more slowly in Japan than in the United States (Figure 11.13). The combination of smaller increases in Japanese unit labor costs and the general depreciation of the yen vis-a-vis the dollar during 1980-85 resulted in a competitive gain for Japanese products in comparison to U.S. goods.

Figure 11.13

ANNUAL CHANGES IN U.S. AND JAPANESE MANUFACTURING UNIT LABOR COSTS, 1980–84 (In National Currencies; Index 1980=100)



Structural changes in the Japanese export mix are perhaps the most enduring factor behind Japan's swelling global trade surplus. Since the late 1970s, Japan's export structure has shifted increasingly to high-technology and other high value-added products. World demand for manufactures—and for machinery and electronics in particular—has grown more rapidly than demand for energy or raw materials. This tends to promote the expansion of Japanese exports, which are almost solely manufactures, while restraining the nonmanufactures exports of other countries. Moreover, the shift towards electronics and other new products has helped to reduce the import intensity of Japanese export production and total output, thereby slowing the growth rate of Japanese imports.

The overall impact of Japanese tariff barriers and export promotion measures was not a significant factor in the increasing U.S. trade deficit with Japan. Japan's average tariff rates are very low and its few import quotas apply almost solely to agricultural goods. Non-tariff barriers, however, have inhibited the penetration of foreign exports—especially manufactures—into the Japanese market. Among the factors allegedly impeding access to Japan are transportation costs, the complex distribution system, the Japanese industrial structure, government regulations and certification procedures, and consumer tastes. Estimates of the effect of such informal trade barriers vary widely.

OUTLOOK FOR U.S.-JAPANESE TRADE

Several econometric models forecast a slight rise in the U.S. trade deficit with Japan in 1986. Since changes in trade flows lag behind exchange rate movements, the initial impact of the dollar's considerable drop vis-a-vis the yen will be to increase Japan's trade surplus with the United States. The depreciation of the dollar will first cause the U.S. trade balance to deteriorate as the value of U.S. imports rises and that of U.S. exports declines. Within six to eighteen months, the volume of U.S. exports to Japan should begin to expand while U.S. imports from Japan start to shrink, leading to an improvement in the U.S. trade balance with Japan.

With the urging of U.S. and other western leaders, the Japanese government is considering a variety of measures aimed at stimulating domestic demand. Stimulative policies are needed, both to sustain economic growth in the face of the appreciating yen and to encourage a substantial reduction in Japan's trade and current account surpluses. Although the Japanese government has acknowledged the need to trim its external surpluses, the tepid measures proposed so far will probably not result in a pronounced reduction in Japan's trade or current account surplus. Japan has already liberalized regulations, streamlined certain license and certification procedures, and reduced some barriers that hitherto impeded entrance to Japanese product and financial markets. While significant in formal terms, the actual impact of these trade liberalizations is not yet clear. Moreover, full implementation of promised liberalization measures is still needed in some cases.

Who is Buying Developing Countries' Manufactures?

By Victoria L. Hatter

Manufactures trade deficits of the Developing Countries with Japan and the European Community are mirror images of their surpluses with the United States. Recent dollar depreciation may help LDC balances with the EC and Japan.

INTRODUCTION

U.S. imports of manufactured goods from the developing countries doubled from 1980 to 1984, rising from about $33 billion to about $66 billion. The marked expansion of U.S. purchases significantly enhanced the economic position of many developing countries, including high debt ones dependent on sharply increased exports to avert financial collapse.

The surge in developing country sales of manufactures to the United States was in marked contrast to developing country exports of manufactures to other major developed countries. Japanese imports of developing country manufactures rose by only about one-fourth from 1980 to 1984—from $8.3 billion to $10.4 billion. Imports of developing country manufactures by the ten member European Community (excluding Spain and Portugal)—though almost as large as those of the United States in 1980—have actually declined in U.S. dollar terms. The European Community bought about $31 billion in developing country manufactured products in 1980 but only about $24 billion in 1984 (Table 11.2). (All data in this paper are in current dollars and current exchange rates.)

Table 11.2

Manufactures Trade with Developing Countries, 1980-84*
(Billion dollars)

		1980	1982	1984
United States:	Exports	58.8	58.5	50.6
	Imports	33.2	40.1	65.9
	Balance	25.6	18.4	-15.3
Japan:	Exports	56.3	59.7	60.0
	Imports	8.3	8.4	10.4
	Balance	48.0	51.3	49.6
European Economic Community:	Exports	98.6	96.6	81.4
	Imports	31.0	24.4	26.0
	Balance	67.6	72.2	55.3

* Balances may not add due to rounding.
Manufactures includes SITC 5-9.

In this chapter we examine in detail how the United States compares as a buyer of developing country manufactures with Japan and the European Community (EC). Three measures are used—the manufactures trade balance with developing countries, the share of total manufactures imports supplied by developing countries, and the ratio of manufactures imports to gross domestic product (GDP). By all three yardsticks—both with respect to absolute magnitudes and changes in these magnitudes between 1980 and 1984—the United States has clearly been the best customer for developing country manufactures.

MANUFACTURES TRADE BALANCES

The U.S. manufactures trade balance with the developing countries deteriorated rapidly since 1982, shifting from surplus to deficit in 1983. While both Japan and the EC have seen their manufactures trade balances with the developing countries deteriorate between 1982 and 1984, the slippage, especially for Japan, was relatively small, compared to that of the United States, and both Japan and the EC continued to maintain large surpluses in their manufactures trade with the developing countries (Table 11.3). Japanese and EC balances with the developing countries did not deteriorate as much as the U.S. balance because their imports from the developing countries climbed only slightly while U.S. imports soared.

Table 11.3

Manufactures Trade with the Developing Countries, 1984*
(Billion dollars)

	Exports	Imports	Balance
United States with:			
Latin America	18.4	15.8	2.5
East Asian NICs	11.6	38.1	-26.4
OPEC	7.0	0.8	6.2
Other High Debt	5.4	4.8	0.6
Other LDCs	8.2	6.4	1.8
Japan with:			
Latin America	3.5	1.7	1.8
East Asian NICs	23.4	5.7	17.6
OPEC	14.7	0.6	14.1
Other High Debt	5.1	0.8	4.4
Other LDCs	13.4	1.7	11.7
EC with:			
Latin America	9.2	3.6	5.6
East Asian NICs	8.2	11.0	-2.8
OPEC	30.3	1.5	28.8
Other High Debt	12.3	4.0	8.3
Other LDCs	21.4	6.0	15.4

* Balances may not add due to rounding.
"LDCs" refers to Developing Countries.

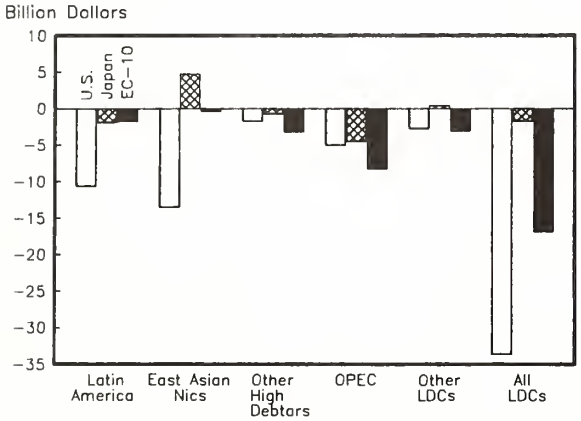
United States

Manufactures trade was responsible for the deterioration in the U.S. trade balance both globally and with the developing countries. The U.S. manufactures trade balance with the developing countries slipped by $33.6 billion, from a $18.4 billion surplus in 1982 to a $15.3 billion deficit by 1984. Two developing country areas, the East

Asian NICs and Latin America,[19] contributed most to the 1982-1984 deterioration. Together, these two areas accounted for nearly three-quarters of the $33.6 billion drop in the U.S. manufactures balance with all developing countries and about one-third of the deterioration in the U.S. manufactures trade balance with the world during that period (Figure 11.14). U.S. imports from Latin America rose by an average of 31 percent per year while exports to the area dropped an average of 10 percent per year. While U.S. manufactures exports to the East Asian NICs did increase during the period, imports, with average annual growth of 29 percent, expanded three times as rapidly. The U.S. trade balances with all the other developing country areas also deteriorated between 1982 and 1984 as exports declined and imports increased.

Figure 11.14

CHANGES IN MANUFACTURES TRADE BALANCES OF UNITED STATES, JAPAN, AND EC-10 WITH DEVELOPING COUNTRIES, 1982-84



Japan and the European Community

The European Community's manufactures trade surplus with the developing countries declined from $72.2 billion in 1982 to $55.3 billion in 1984, a fall of $16.9 billion. Half of that drop was attributable to a fall in the EC surplus with OPEC, as declining oil revenues curtailed OPEC imports. Only a small portion of the deterioration in the EC manufactures balance—13 percent—resulted from trade with Latin America and the East Asian NICs.

Japan's manufactures trade surplus with the developing countries declined only marginally between 1982 and 1984. As with the EC, the largest source of deterioration was in the OPEC balance, with Latin America the second largest. Unlike the United States and the EC, Japan maintains, and has expanded, its manufactures trade surplus with the East Asian NICs.

[19] Developing country groups are: Latin America—South America, plus high debt countries in Central America (Mexico, Costa Rica, Dominican Republic, Honduras, Jamaica). East Asian NICs—Hong Kong, Taiwan, South Korea, Singapore. Other High Debt—Egypt, Israel, Morocco Ivory Coast, Nigeria, Zaire, Philippines, Thailand, Nigeria. OPEC—all OPEC, except countries in other groups, such as Venezuela and Nigeria. Other LDCs, developing countries not included in the other groups.

PURCHASING PATTERNS OF MANUFACTURES FROM DEVELOPING COUNTRIES

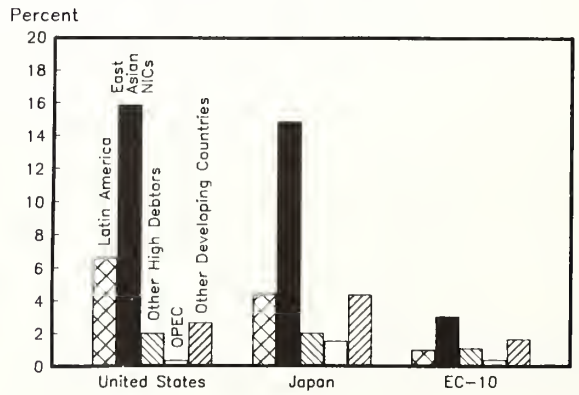
Import Shares

United States. An increasing share of rapidly growing U.S. manufactures imports was supplied by the developing countries. During the 1980's, the developing countries' share of U.S. manufactures imports rose from 24.2 percent in 1980 to a peak of 28.0 percent in 1983 before slipping somewhat in 1984 to 27.5 percent (Figures 11.15 and 11.16). The East Asian NICs had by far the largest share of U.S. manufactures imports from the developing countries; their share rose from 13.2 percent in 1980 to 15.9 percent in 1984. Latin America, the next largest developing country supplier of manufactures, improved its share to 6.6 percent in 1984. The shares of "Other High Debt" countries and the "Other Developing Countries" group, however, were both lower in 1984 than in 1980.

Japan and the European Community. Developing country shares of Japanese and EC manufactures imports have not changed markedly since 1980 (Table 11.4). The developing countries' share of Japan's manufactures imports peaked in 1981 at 27.2 percent and slipped the two following years to about 25 percent in 1983 before returning in 1984 to the 1981 level. The developing countries' share of EC manufactures imports has remained close to 7.2 percent over the period. If intra-EC trade is excluded, however, the developing countries' share of EC manufactures imports generally shows a declining trend in the 1980's. This indicates that developing country manufactures fared somewhat better in competition with EC manufactures than with non-EC manufactures.

Figure 11.15

COMPOSITION OF MANUFACTURES IMPORTS BY UNITED STATES, JAPAN, AND EC-10 FROM DEVELOPING COUNTRIES, 1984



The East Asian NICs were the largest developing country suppliers of manufactures to Japan and to the European Community. The East Asian NIC share of Japan's manufactures imports peaked in 1981 at 14.9 percent and then fell for two years before returning to the 1981 level in 1984. The East Asian NIC share of EC manufactures imports is much smaller at about 3.0 percent.

Figure 11.16

CHANGES IN DEVELOPING COUNTRIES' SHARES OF MANUFACTURES IMPORTS BY UNITED STATES, JAPAN, AND EC-10, 1980-84

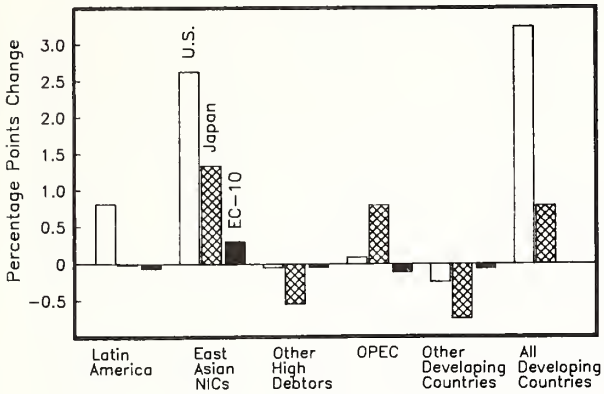


Table 11.4

Developing Country Shares of Selected Industrial Countries' Manufactures Imports, 1980 and 1984* (Percent)

Developing Countries	Industrial Countries					
	United States		Japan		Euro. Comm.	
	1980	1984	1980	1984	1980	1984
Total	24.2	27.5	26.4	27.2	7.2	7.2
Latin America	5.8	6.6	4.4	4.4	1.1	1.0
East Asian NICs	13.2	15.9	13.5	14.9	2.7	3.1
Other High Debt	2.1	2.0	2.6	2.0	1.2	1.1
OPEC	0.2	0.4	0.7	1.5	0.5	0.4
Other LDCs	2.9	2.7	5.1	4.4	1.7	1.7

* Totals may not add due to rounding.
"LDCs" refers to Developing Countries.

Latin America is the second largest developing country supplier of manufactures to Japan with a 4.4 percent share but supplies only a tiny share of EC manufactures imports. The shares of the "Other High Debt" group declined in both Japan and the EC during the 1980s, as did that of the "Other Developing Country" group.

Imports per Dollar of GDP

The United States spends a larger portion of its GDP on manufactures imports from the developing countries than does either Japan or the European Community and this difference widened considerably in the 1980's (Figure 11.17). In 1984, the United States spent $1.82 for every $100 dollars of GDP on manufactures imports from the developing countries compared to $1.19 for the EC and only $0.85 for Japan. Between 1980 and 1984, Japanese and EC spending on manufactures imports from the developing countries relative to GDP rose only slightly while that of the United States climbed by more than two-fifths. As a result, by 1984, the EC spent only two-thirds as much as the United States while Japan, despite the fact that developing countries supplied nearly as large a share of its manufactures imports as they did in the United States, spent less than half as much (Figure 11.18).

Figure 11.17

RATIOS OF MANUFACTURES IMPORTS FROM DEVELOPING COUNTRIES TO GDP OF UNITED STATES, JAPAN AND EC-10, 1984

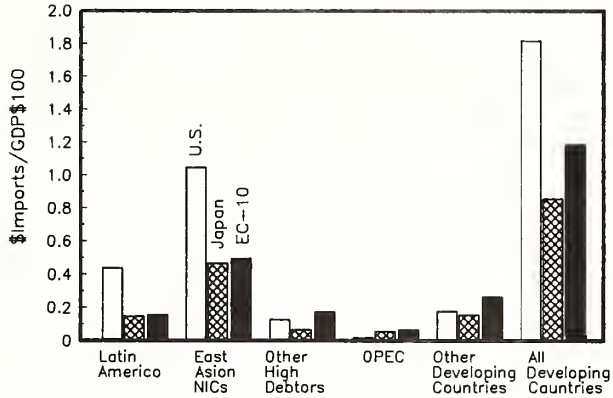
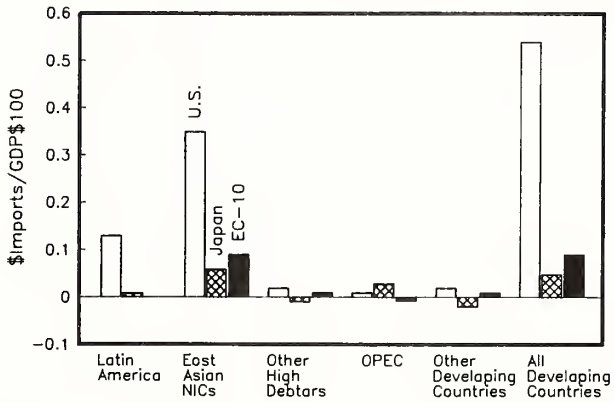


Figure 11.18

CHANGES IN RATIOS OF MANUFACTURES IMPORTS FROM DEVELOPING COUNTRIES TO GDP OF UNITED STATES, JAPAN, AND EC-10, 1980-84



SUMMARY AND CONCLUSIONS

By all of the measures applied, developing countries have made much greater progress in selling their exports of manufactures in the United States than in the European Community or Japan. The U.S. manufactures trade balance with the developing countries went from surplus to deficit while that of the EC remained in surplus, although it declined. Japan's manufactures trade balance continued its strong surplus position. While the developing countries' share of U.S. manufactures imports rose by more than three full percentage points, the developing countries' share of the EC market did not enlarge during the eighties and rose by less than one percentage point in Japan. The value of manufactures imports from the developing countries for each dollar of GDP in the United States rose 5 times faster than in the EC and 10 times faster than in Japan.

The gains developing countries have made in penetrating the U.S. market for manufactures have both promoted the productive capabilities in those countries and helped them in many instances avoid financial disaster. These gains owe much to the openness and large size of the U.S. market which makes the United States a particularly

inviting target for export expansion programs by the developing countries. In addition, rapid U.S. economic growth since 1982 and the appreciation of the dollar, in real terms, vis-a-vis the currencies of some developing countries, for example the East Asian NICs, helped stimulate developing country sales to the United States. These latter two variables, however, can no longer be counted on to boost developing country manufactures exports.

Recent Trends in Industrialized West's Trade with Centrally-Planned Economies

By Ronald G. Oechsler

The Industrial West's trade with the CPEs is still a small share of their total trade and output. For the first time, in 1985 China became their largest CPE trading partner.

INTRODUCTION

Improvements in Soviet-American relations during 1985 raised interest in the West's trade with the USSR and Eastern Europe. Trade with the People's Republic of China (PRC), meanwhile, continues to attract a great deal of attention, reflecting the rapid expansion of China's commercial and investment ties with the West under Deng Xiaoping's Open Door policy.

This article reviews recent trends in trade between 17 Industrialized Western (IW) nations [20] and eight Centrally-Planned Economies (CPEs)—i.e., the USSR, six Eastern European countries, [21] and China. It begins with a brief overview of IW-CPE trade since 1980, focusing on its recent growth performance and the shares of the leading IW and CPE partners in the total trade. A second section examines the relative economic importance of trade with CPEs for the 17 IW nations. A final section examines Western dependence on CPEs for specific commodities. The analysis shows that while trade with CPEs is considerably more important for Western Europe and Japan than for the United States, it nonetheless accounts for a small portion of the total trade and economic output of the 17 IW nations.

TRADE VOLUMES AND SHARES, 1980-85

Based on preliminary figures, the dollar value of total IW trade (exports plus imports) with the eight CPEs amounted to $103 billion in 1985, twice as large as in 1975 but only slightly higher than in 1980 (Table 11.5). [22]

Table 11.5

Industrialized West's Trade with the CPEs, 1970-85*
(Million dollars)

	1970	1975	1980	1984	1985**	Percent Change 1980-85	Percent of 1985 Total
Exports, total	7,641	29,896	52,305	45,799	52,743	0.8	100.0
USSR	2,243	10,834	17,437	18,130	16,182	-7.2	30.7
East Europe	4,178	14,464	22,489	13,389	13,822	-38.5	26.2
China	1,220	4,598	12,379	14,280	22,739	83.7	43.1
Imports, total	6,628	19,534	48,567	51,870	49,877	2.7	100.0
USSR	2,158	7,235	20,484	22,162	19,080	-6.9	38.3
East Europe	3,804	9,643	19,598	17,351	16,804	-14.3	33.7
China	666	2,656	8,485	12,357	13,993	64,9	28.1
Exports plus imports	14,269	49,430	100,872	97,669	102,620	1.7	100.0
USSR	4,401	18,069	37,921	40,292	35,262	-7.0	34.4
East Europe	7,982	24,107	42,087	30,740	30,626	-27.2	29.8
China	1,886	7,254	20,864	26,637	36,732	76.1	35.8
Balance	1,013	10,362	3,738	-6,071	2,866	—	—
USSR	85	3,599	-3,047	-4,032	-2,898	—	—
East Europe	374	4,821	2,891	-3,962	-2,982	—	—
China	554	1,942	3,894	1,923	8,746	—	—

* Includes West German trade with East Germany.
** Preliminary.
Source: United Nations, OECD, and West German-East German trade from Federal Republic of Germany Statistical Office.

[20] For the purposes of this paper, the 17 Industrialized Western (IW) Countries are: the 10 European Community nations (Belgium-Luxembourg, Denmark, the Federal Republic of Germany (FRG), France, Greece, Ireland, Italy, the Netherlands, the United Kingdom) plus Austria, Canada, Norway, Sweden, Switzerland, Japan, and the United States.

[21] "Eastern Europe" refers to the six East European members of the Council of Mutual Economic Assistance (CMEA)—i.e., Bulgaria, Czechoslovakia, the German Democratic Republic (GDR), Hungary, Poland, and Romania.

[22] Dollar figures on IW-CPE trade should be interpreted with caution due to the substantial swings in the exchange value of the U.S. dollar since the mid-1970s. Other things equal, depreciation of the dollar vis-a-vis European currencies increases the dollar value of IW-CPE trade, while dollar appreciation has exactly the opposite effect.

China accounted for the largest portion of 1985 IW-CPE trade (35.8 percent), followed by the USSR (34.4 percent), and Eastern Europe (29.8 percent). This was a major change from a decade earlier, when the PRC accounted for only 15 percent of IW-CPE trade, compared with 49 percent for Eastern Europe and 37 percent for the USSR.

IW exports to CPEs amounted to $52.7 billion in 1985, virtually unchanged from 1980. China was the largest CPE export market for the IW in 1985, taking 43.1 percent of CPE-bound exports. Shipments to the PRC expanded 84 percent during 1980-85, surging 59 percent in 1985 alone.

This unprecedented expansion in exports to the PRC was partly a reflection of the extremely rapid growth of Chinese capital investment and industrial production during the first half of 1985, which led to increased imports of raw materials and industrial goods to ease supply bottlenecks. China's urban economic reforms, introduced October 1984, were another important, although indirect factor. By boosting wage levels, recent reform measures have released pent-up demand for consumer durables, which has been partly satisfied through large purchases of televisions, automobiles, and other products—particularly from Japan. Decentralization of China's foreign trade system has also given local officials—especially in the special economic zones and liberalized coastal cities—more authority to deal directly with foreign suppliers, resulting in rapid growth in imports of machinery, equipment and consumer goods for local development projects.

During the 1980-85 period, exports to the USSR slipped 7 percent, and sales to Eastern Europe plummeted 39 percent, as severe debt servicing problems forced drastic cutbacks in East European hard currency imports from Western nations.

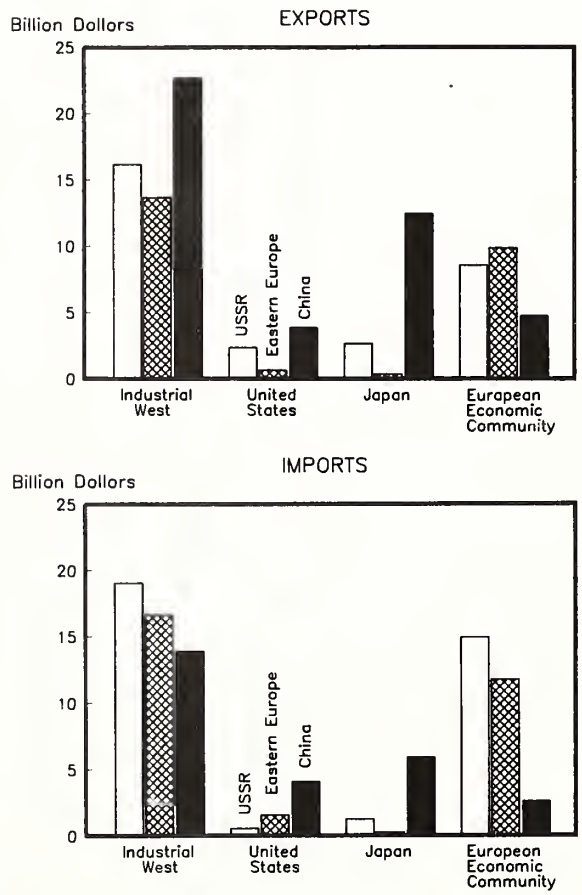
IW imports from CPEs totalled $50 billion in 1985, up only 3 percent from 1980. The USSR was the largest CPE supplier, providing 38 percent of IW imports from CPEs in 1985. Crude oil and refined petroleum products comprised over 70 percent of IW imports from the USSR. Following a modest increase during 1980-84, IW imports from the Soviet Union fell 14 percent in 1985, mainly reflecting lower volume and prices of Soviet oil exports. Due to slack commodity prices and the poor quality and marketing of East European products, IW imports from Eastern Europe fell 14 percent from 1980. Imports from the PRC, by contrast, rose 65 percent during 1980-85, reflecting sharply higher IW purchases of oil, textiles, and other light manufactures.

Because of the jump in exports to China, the IW countries posted a $2.9 billion trade surplus with CPEs in 1985. After running large trade surpluses with CPEs in the 1970s—including a record $10 billion surplus in 1975—the IW incurred deficits with CPEs of $3.6 billion annually after 1982. Most of the deterioration was due to the debt-related cutbacks in hard currency imports by East European countries. As a result, IW trade with Eastern Europe went from a $3 billion surplus in 1980 to a deficit of $3 billion in 1985. The IW also had a $3 billion trade deficit with the USSR in 1985. In contrast, the IW posted a record $8.7 billion surplus with China in 1985, compared with surpluses of $4 billion in 1980 and $1.9 billion in 1984.

The European Community (EC) accounted for the largest share of IW-CPE trade in 1985—45 percent of IW exports and 59 percent of IW imports (Figure 11.19). The EC countries dominate IW trade with the USSR and Eastern Europe, supplying 53 percent of IW exports to the USSR and 73 percent of exports to Eastern Europe, while absorbing roughly three-fourths of IW imports from these nations. The EC, however, accounts for only one-fifth of IW trade with China.

Figure 11.19

INDUSTRIAL WEST'S TRADE WITH CPEs, 1985



The U.S. share of IW trade with the USSR and Eastern Europe is relatively small—about 8 percent. In 1985, the United States supplied 15 percent of IW exports to the USSR, and 6 percent to Eastern Europe, while taking only 3 percent IW imports from the USSR and 10 percent of imports from Eastern Europe. The U.S. also provides a comparatively modest share of IW exports to China—17 percent in 1985—but absorbs nearly one-quarter of all IW imports from the PRC, reflecting China's successful penetration of the large, relatively open U.S. domestic market.

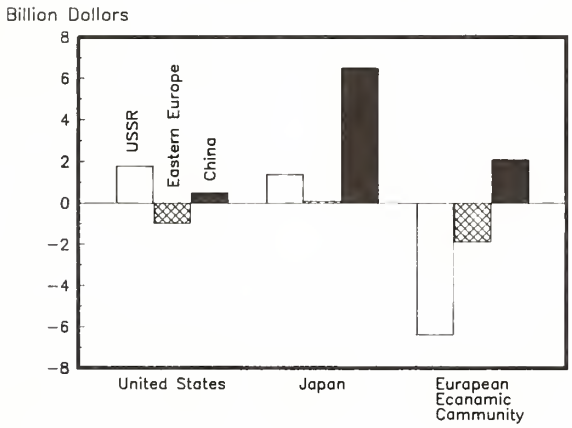
At 7.6 percent in 1985, Japan's share of IW trade with the USSR and Eastern Europe is on a par with that of the United States. Japan, however, dominates IW trade with

China, providing 55 percent of IW exports to the PRC and taking 43 percent of IW imports of Chinese products in 1985.

Japan is the only major IW country to run trade surpluses with all three CPE subgroups, with an $8 billion surplus in 1985 (Figure 11.20). The EC, on the other hand, had a combined 1985 deficit of $6.2 billion with CPEs, reflecting the EC's large fuel imports from the USSR and the EC's large imports of manufactured goods from Eastern Europe.

Figure 11.20

INDUSTRIAL WEST'S TRADE BALANCES WITH CPEs, 1985



Prior to 1983, the United States traditionally had trade surpluses with CPEs. Since then, rising imports have pushed U.S. trade with Eastern Europe and China into deficit, while only U.S.-Soviet trade has consistently been in surplus.

IMPORTANCE OF TRADE WITH CPES TO IW ECONOMIES

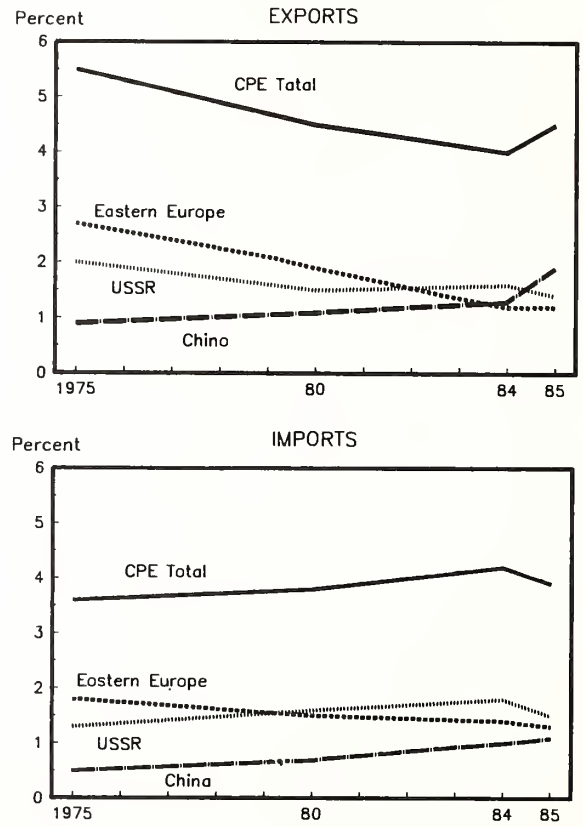
CPEs accounted for a relatively small share of global IW trade in 1985—4.5 percent of IW exports and 3.9 percent of IW imports (Figure 11.21). While the same as in 1980, the CPE share of IW exports was a full percentage point lower than in 1975, when IW trade with the USSR and Eastern Europe was growing rapidly.

Eastern Europe's share of IW trade fell sharply during 1980-85, with its share of IW exports slipping to 1.2 percent in 1985, from nearly 2 percent in 1980. The Soviet share of IW exports and imports fell in 1985, after rising the previous four years.

China's share of IW trade, on the other hand, has risen sharply since the late 1970s. Exports to China provided 1.9 percent of global IW exports in 1985, versus 1.1 percent in 1980. During the same period, China's share of IW imports more than doubled, reaching 1.1 percent in 1985. As a result, China has catapulted into the ranks of the top 25 trading partners of IW countries, surpassing many developing countries as well as a few of the smaller IW nations (Ireland, Greece). Nonetheless, trade with China still has a long way to go before it approaches the size of trade between the major IW nations and the United States or among IW nations exclusive of the United States.

Figure 11.21

CPE SHARES OF INDUSTRIAL WEST'S TRADE, 1975, 1980, & 1984–85



The United States conducts a much smaller proportion of its total trade with CPEs than either the EC or Japan. Exports to CPEs provided 3.3 percent of total U.S. exports and only 1.6 percent of U.S. imports in 1985, more than half of which was accounted for by China. China was the 14th largest U.S. export market in 1985—ahead of Singapore, but behind Taiwan, Italy and Saudi Arabia—and the 17th ranked source of U.S. imports. The USSR was the 21st largest U.S. export market in 1985, but ranked only 61st—behind Honduras and Panama—among suppliers of U.S. imports. Eastern Europe ranked 34th among U.S. export destinations and 32nd among U.S. import suppliers in 1984.

Exports to CPEs accounted for 3.9 percent of total EC exports and 4.9 percent of total EC imports in 1985. The Soviet Union was the 13th largest EC export market and import supplier in 1984, while Eastern Europe as a whole ranked 20th among EC export destinations and import suppliers.

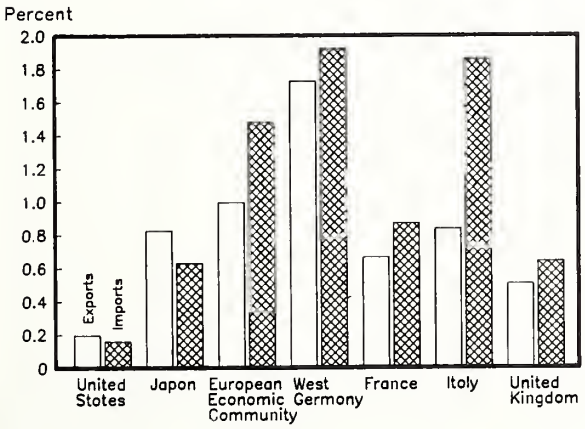
CPEs account for nearly 9 percent of Japanese exports and 6 percent of Japanese imports. This is mainly a reflection of Japan's growing trade with China, since, as noted

earlier, Japanese trade with the USSR and Eastern Europe is small. In 1984, China was Japan's third largest export market—behind the United States and Korea—and the sixth largest supplier of Japanese imports. By comparison, the USSR was only the 15th largest Japanese export market and the 22nd largest import supplier in 1984.

Expressed as a percent of gross domestic product (GDP), trade with CPEs—particularly the USSR and Eastern Europe—was clearly more important for the EC than for either the United States or Japan (Figure 11.22). The proportion of GDP derived from trade with CPEs is highest for the FRG and Italy. In broad terms, however, the economic importance of trade with CPEs for the EC and Japan is not particularly great, especially in comparison with these nations' reliance on external sources for imports of oil and other key raw materials. Oil imports from LDCs (chiefly OPEC), for example, were equivalent to 2.5 percent of 1984 GDP for the EC, 4.3 percent for Italy, 2.8 percent for France, 1.6 percent for the FRG and 4.0 percent for Japan.

Figure 11.22

RATIO OF INDUSTRIAL WEST'S TRADE WITH CPEs TO GDP, 1984



IMPORTANCE OF IW-CPE TRADE IN KEY COMMODITIES

While CPEs account for under 5 percent of total IW exports, they absorb a much higher percentage of IW exports of certain commodities. The CPE share of IW exports is especially large in grain and livestock feed, with the USSR and China absorbing 36 percent ($4.8 billion) of IW wheat exports in 1984 and 18 percent ($1.5 billion) of IW corn exports. CPEs also took a significant proportion of IW exports of certain manufactured products, including 27 percent ($680 million) of IW exports of heavy steel plate, 31 percent ($1.6 billion) of seamless steel pipe, and 13 percent ($790 million) of metal-working machine tool exports. Such products, however, are the exception among IW exports to CPEs. In most items, the CPE share of IW exports is extremely small, if not negligible.

The CPE share of U.S. exports is largest in farm products. In 1984, CPEs took 21 percent ($3.3 billion) of U.S. grain exports, including 27 percent of U.S. wheat exports and 21 percent of corn exports. CPEs also absorbed 10 percent ($291 million) of U.S. exports of inorganic chemicals, and 6 percent ($238 million) of synthetic rubber exports.

CPE shares of EC and Japanese exports are largest in manufactured goods (e.g., steel pipe and plate, metal-working machine tools). The share of Japanese exports going to China, while still relatively low, has risen since 1980. In 1984, China absorbed 20 percent of Japanese iron and steel exports, 17 percent of its television exports, and 30 percent of its bus exports.

CPEs are major suppliers to the IW only in energy products. In 1984, the EC countries obtained 11.4 percent of their imports of crude oil and refined petroleum products from the USSR, with the FRG, Italy and the Netherlands drawing from 10 to 16 percent of their total oil imports from the Soviet Union (Table 11.6). Japan also imports substantial amounts of oil from China, totalling $2.9 billion in 1985, equivalent to 6.3 percent of total Japanese imports of crude oil and refined petroleum products.

Table 11.6

Industrial West Oil and Gas Imports, by Value and Share Supplied by the USSR, 1980 and 1984 (Million dollars)

Industrial West Importer	Petroleum & Product				Natural Gas			
	1980		1984		1980		1984	
	Value	Percent	Value	Percent	Value	Percent	Value	Percent
EC-10, total	8,274	6.0	11,590	11.4	1,098*	8.4*	3,321	19.6
West Germany	1,919	5.5	2,639	10.8	na	na	1,522	26.2
France	2,174	7.1	1,539	7.7	467	18.2	661	18.7
Italy	1,707	6.9	2,490	13.1	617	41.3	1,137	36.3
Netherlands	1,105	6.4	2,058	15.6	neg	neg	0	0.0
Austria	386	13.3	272	13.6	438	95.2	516	93.5

* Excludes natural gas imports from the USSR.
na = not available; neg = negligible.

Construction of natural gas pipelines from Siberia has led to significant growth in West European imports of natural gas from the Soviet Union. Imports of Soviet gas were particularly large for Austria, Italy, and West Germany.

Apart from oil and gas, however, there are very few major products where CPEs provide more than 3-5 percent of total IW imports. Exceptions include: copper alloys (18 percent, $149 million); heavy steel plate (17 percent, $53 million); furniture (13 percent, $159 million); and non-knit clothing (12 percent, $428 million).

CONCLUSIONS

Trade with Centrally-Planned Economies is a relatively small factor in the total foreign trade and output of all 17 leading Industrialized Western nations. The eight CPEs combined accounted for only 4.5 percent of IW exports and 3.9 percent of IW imports in 1985. Exports to CPEs contributed a negligible portion of IW GDP. Although CPEs are important trading partners in certain commodities, in most sectors IW dependence on CPEs is very low.

The dollar value of IW trade with CPEs stagnated at about $100 billion annually during 1980-85. IW trade with China expanded 76 percent during 1980-85, but this growth was almost completely offset by a drop in trade with the USSR and Eastern Europe, reflecting slack Soviet oil and raw material exports and severe debt problems in Eastern Europe.

The United States accounts for a much smaller share of IW-CPE trade than either the EC or Japan—13 percent in 1985, versus 53 percent for the EC and 24 percent for Japan. Exports to CPEs provide just over 3 percent of global U.S. exports and 0.2 percent of U.S. GDP, lowest of any leading IW nation.

The IW countries no longer run large trade surpluses with the CPEs, as they did in the 1970s. Only Japan continues to have trade surpluses with all three CPE subgroups. The EC nations have run large deficits with the USSR and Eastern Europe since the early-1980s. The United States continues to run trade surpluses of $1-3 billion annually with the USSR, but U.S. trade with Eastern Europe and China has been in deficit since 1983.

The industrialized West's trade with CPEs is likely to grow only modestly, if at all, during the next several years. Declining oil prices have sharply eroded Soviet hard currency exports to the West—three-fourths of which consist of oil and oil products. Soviet officials have made clear that Moscow will not engage in large-scale foreign borrowing to offset falling oil revenues. Thus, if oil prices remain depressed, substantial cuts in Soviet imports from the IW will be almost unavoidable.

IW trade with Eastern Europe is also likely to grow modestly, but is not expected to return to the high growth rates experienced in the early to mid-1970s. With the exception of Poland, most East European countries have recovered from the severe debt crisis of the early 1980s. Debt servicing burdens, however, remain an important constraint on these nations' hard currency import capacity. Unless East European hard currency export performance improves, growth in imports from IW nations will likely remain limited.

The outlook for Western trade with China is also uncertain. To stem further depletion of China's foreign exchange reserves, import controls were tightened in the second half of 1985. PRC industrial growth has also been cut back from 1985 levels. As a result, a sharp slowdown is expected in IW exports to China during 1986 and possibly beyond. China's import capacity has been further impaired by declining oil prices, which could cost China as much as $2 billion in lost export revenues in 1986.

Changing Trends in U.S. Petroleum Imports

By Trade Research Division Staff

Since the second "oil shock" in 1979-80, U.S. imports of crude petroleum have fallen sharply, while imports of petroleum products have slightly grown. OPEC efforts to support prices also led to U.S. import shifts to non-OPEC suppliers.

INTRODUCTION AND SUMMARY

The levels (volume and value), composition, and country origins of U.S. petroleum and petroleum product imports have changed dramatically since the second "oil shock" in 1979-80, when world crude oil prices more than doubled. Petroleum imports are composed of both crude oil and petroleum product imports; the petroleum product category consists of many specific products such as gasoline and fuel oils. There are two ways in which the level of petroleum imports can be gauged—by volume and by value. Because the trends for volume and value have diverged over the 1978-85 period, both developments will be discussed below.

The volume of total U.S. petroleum imports has declined from over 3 billion barrels in 1978 to less than 2 billion barrels in 1985. Imports of crude, which in 1985 were only about half the 1978 import volume, accounted for most of this decline. In contrast to the sharp decline in crude oil imports, U.S. petroleum product imports fell off by only about 10 percent. Thus the composition of U.S. oil imports shifted over the 1978-85 period, away from crude and toward products.

In contrast to declining volume imports of petroleum, the value of U.S. petroleum imports increased rapidly between 1978 and the early 1980s, rising from $45 billion in 1978 to a peak of $82 billion in 1980. Since then, declining crude volume and prices have eroded the value of U.S petroleum imports; 1985 petroleum imports were valued at only $52.4 billion, above the 1978 value but well below the 1981 peak. The value of crude imports fell almost by half between 1981 and 1985. The 1985 value of petroleum product imports, although small compared to the value of crude imports, was almost double the 1978 value. Thus on a value basis as well as on a volume basis, the composition of U.S. petroleum imports shifted away from crude and toward products over the period.

The country origins of U.S. petroleum imports also shifted over the period. OPEC countries supplied a much smaller fraction of U.S. oil imports in 1985 than in 1978 (Venezuela, the third largest supplier in 1985, is a notable exception). Another trend is the emerging tendency for crude-exporting countries to export products as well as crude; several countries are now major suppliers of both crude and products. In 1978, few crude producers were sources of refined products.

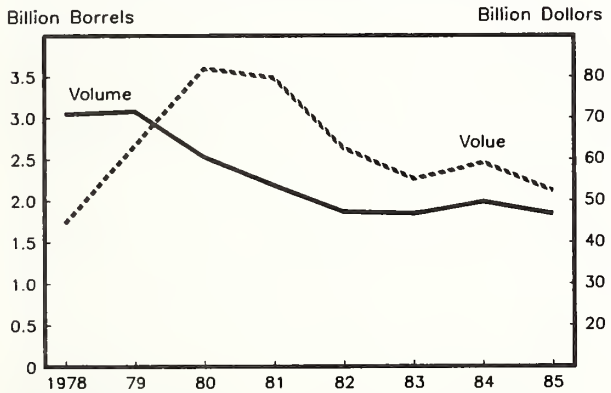
LEVEL AND COMPOSITION OF U.S. PETROLEUM IMPORTS

Levels of U.S. Petroleum Imports

After peaking in 1979 at 3.1 billion barrels, the volume of U.S. petroleum imports has declined (Figure 11.23). The value of U.S. petroleum imports peaked in 1980 at $82.0 billion. In 1985, 1.8 billion barrels of petroleum were imported, at a cost of $52.4 billion.

Figure 11.23

U.S. PETROLEUM AND PETROLEUM PRODUCT IMPORTS, 1978–85



The decline in the volume of U.S. petroleum imports has resulted primarily from the 1979-80 rise in crude oil prices. Increased prices led to two developments which reduced world oil consumption: (1) a world-wide recession, which reduced demand in the United States and elsewhere, and (2) accelerated adoption of energy conservation measures and non-oil fuel sources. In addition, U.S. economic activity was stalled by a second major recession in the early 1980s, further reducing U.S. oil demand.

Because the United States is a major producer of oil, the 1979-80 rise in crude prices also boosted incentives for domestic oil exploration and production. The volume of U.S. oil production in 1985 was about the same as in 1978, with increasing Alaskan production during the period offsetting declines in the lower 48 states. With reduced U.S. demand and stable U.S. production, the volume of U.S. imports fell.

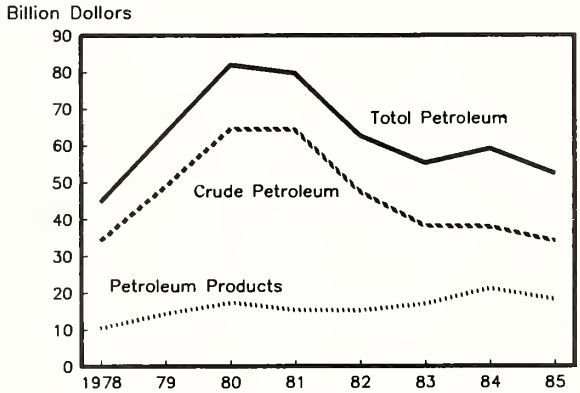
Composition of U.S. Petroleum Imports

In 1978, crude imports accounted for 76 percent of the volume of total U.S. petroleum imports; product imports for only 24 percent. Over the 1978-85 period, crude import volume declined by almost half; product imports declined by only about 10 percent. (The volume of product imports was the same in 1978 and 1984, but dropped in 1985). Because imports of crude declined more steeply than imports of petroleum products, the composition of U.S. petroleum imports has shifted markedly. By 1985, crude imports accounted for only 64 percent of total U.S. petroleum imports; product imports for the other 36 percent.

Measured on a value basis, similar trends have shifted the composition of U.S. petroleum imports away from crude imports and toward petroleum product imports since 1978 (Figure 11.24). In 1978, crude accounted for 77 percent of the value of imported petroleum, products for only 23 percent. Crude's share of the value of U.S. petroleum imports peaked in 1981 at 81 percent, then declined to 64 percent in 1984 before rising slightly to 65 percent in 1985.

Figure 11.24

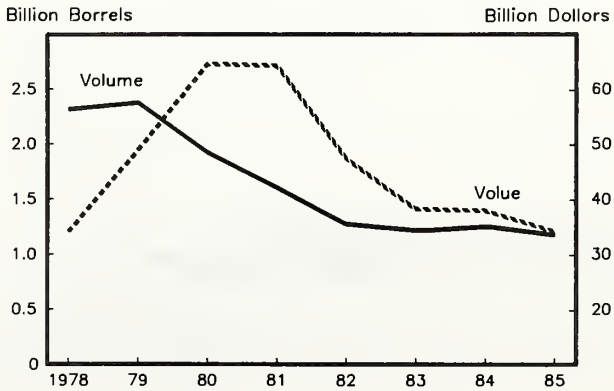
U.S. PETROLEUM IMPORTS, 1978–85



U.S. Crude Oil Imports. At the 1985 level of 1.2 billion barrels crude oil imports were only about half the 2.3 billion barrel level of 1978. This decline in crude oil imports accounted for 95 percent of the decline in total petroleum imports over the 1978-85 period. The value of crude oil imports increased in the wake of the 1979-80 price increases, rising from $34.3 billion in 1978 to a peak of $64.6 billion in 1980 (Figure 11.25). From 1981 onwards, declining crude import volumes and the erosion of crude prices have led to declines in the value of crude imports. In 1985, the value of U.S. crude imports slipped slightly below the 1978 level, to $34.1 billion.

Figure 11.25

U.S. CRUDE OIL IMPORTS, 1978–85



U.S. Petroleum Product Imports. By 1981, the volume of U.S. imports of petroleum products had fallen to about 80 percent of the 1978 volume (584 million barrels in 1981, versus 733 million barrels in 1978). Volume then rose, reaching 736 million barrels in 1984, slightly above the 1978 volume (Figure 11.26). In 1985, the volume of U.S. product imports fell again, to 668 million barrels (about 90 percent of the 1978/1984 volume).

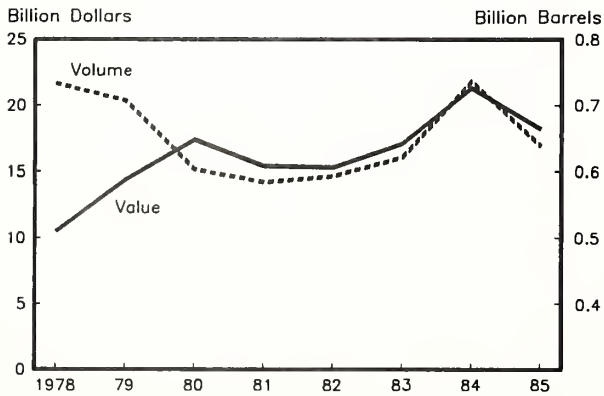
The value of product imports rose sharply between 1978 and 1980, despite a decline in volume, as the average price of imported products rose in the wake of the 1979-80 crude price increases. Between 1981 and 1984, both the average unit value and the volume of imported petroleum products increased, further boosting the total value of U.S. product imports to $21.3 billion in 1984. Both average unit value and volume declined in 1985, however, bringing about a sharp drop in the total value of U.S. product imports, to $18.2 billion.

Major shifts have taken place in the composition of petroleum product imports. For example, residual fuel oil imports have declined (from 495 to 187 million barrels) and gasoline imports have increased (from 69 million to 161 million barrels). In short, while the total volume of product imports has remained relatively stable over the period, this is an average of large shifts in import volumes of individual types of petroleum products.

This shift in the mix of imported products since 1978—away from inexpensive product imports such as residual fuel oil and toward more expensive product imports such as gasoline—has been responsible for much of the increase in the average unit value of product imports.

Figure 11.26

U.S. PETROLEUM PRODUCT IMPORTS, 1978–85



Unlike price increases, a rise in average unit values due to a shift in product mix should not be expected to have a direct impact on the volume of overall product imports. Product import volumes did not fall in tandem with crude import volumes, which fell in response to increased crude prices.

COUNTRY ORIGINS OF U.S. PETROLEUM IMPORTS

The country origins of U.S. petroleum imports have shifted since 1978. At the level of total U.S. petroleum imports:

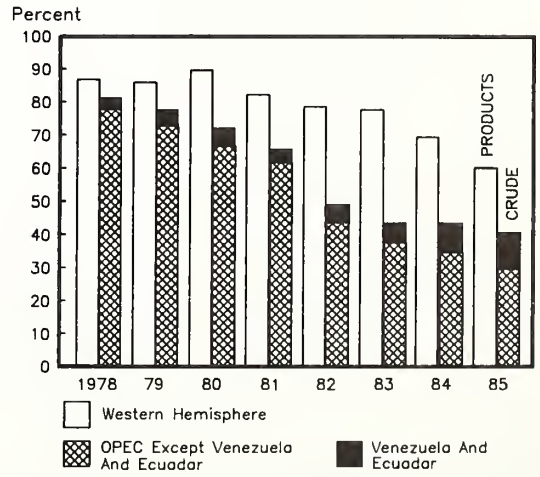
- OPEC has become a much less significant source, accounting for only 36 percent of U.S. petroleum imports in 1985, compared to 69 percent of U.S. petroleum imports in 1978.
- Libya and Iran together provided less than 1 percent of U.S. petroleum imports in 1985, compared to about 7 percent each in 1978.
- Mexico, Canada, and Venezuela—three Western Hemisphere countries—have become the top sources of U.S. petroleum imports, supplying 43 percent of 1985 U.S. imports, up from only 17 percent in 1978.
- Imports from the United Kingdom almost doubled between 1978 and 1985, boosting the U.K.'s share of U.S. petroleum imports from 2 percent to 6 percent.

Country Origins of U.S. Crude Oil Imports

The country origins of U.S. crude imports have shifted dramatically since 1978. In particular, there has been a marked decline in U.S. imports of crude from OPEC countries. OPEC's shipments of crude to the United States in 1985 were only one-fourth the 1978 level. In part, this reflects the drop in total U.S. crude imports, but OPEC's share also declined. As a result, OPEC accounted for only 41 percent of the crude imported by the United States in 1985, down from 82 percent of the crude imported by the United States in 1978. Excluding Venezuela and Ecuador, OPEC's share of U.S. crude imports declined even more sharply, from 78 percent of U.S. crude imports in 1978 to only 35 percent of U.S. crude imports in 1985 (Figure 11.27).

Figure 11.27

U.S. PETROLEUM IMPORTS SUPPLIED BY SELECTED COUNTRIES, 1978–85



The most pronounced example of the trend away from imports of OPEC crude is Saudi Arabia. Between 1978 and 1985, U.S. imports of crude from Saudi Arabia fell from 417 million barrels to only 48 million barrels. Far and away the most important source of U.S. crude imports in 1978, Saudi Arabia ranked only 7th in 1985. Imports of crude from several other countries—mainly non-OPEC—have increased substantially over the period, notably Mexico, Canada, Venezuela, and the United Kingdom (1st, 2nd, 3rd, and 6th largest suppliers of crude in 1985, respectively). Of these countries, only Venezuela is a member of OPEC.

The shift in the sourcing of U.S. crude oil imports away from OPEC to non-OPEC sources since 1978 largely reflects the following factors:

- Rapid expansion of oil production in developed countries and non-OPEC LDCs,
- Greater price competitiveness of non-OPEC versus OPEC suppliers, and
- The role of Saudi Arabia as OPEC's swing producer.

Since 1979, non-OPEC oil production has increased significantly—from 31,496 thousand barrels a day in 1978 to 37,239 thousand barrels a day in 1985. This is in marked contrast to the sharp decline in OPEC oil production. Much of this increase was due to the discovery and opening of new fields by Mexico and by Norway and the United Kingdom in the North Sea. In addition, since 1981, Canada has boosted its oil production in response to high world oil prices. The close proximity of the United States to Mexican and Canadian supplies explains some of the shift away from OPEC sources.

Non-OPEC suppliers to a large extent also have been more price competitive than OPEC suppliers. They have been willing to undercut OPEC prices by providing discounts, entering into so-called "netback" and/or countertrade (barter) agreements, and other arrangements. Under netback agreements, the price of crude oil is effectively equal to the market value of the refined products less the cost of refining and transportation. One implication of the widespread use of netback agreements is that if there is excess supply, as indicated by falling petroleum product prices, crude oil prices under such an arrangement will decline and less risk is placed on the refiners as long as the refined products can be sold. As a result, non-OPEC oil producers have increased their market share at OPEC's expense. Indeed, OPEC producers are now considered residual suppliers in the world market.

Finally, Saudi Arabia's role as swing producer has been an important factor in the shift away from OPEC sources. The decline in U.S. crude imports from Saudi Arabia accounted for about 26 percent in the overall drop in total U.S. crude imports from OPEC. This results from the sizable drop in Saudi oil production that was needed to maintain OPEC crude price levels. Saudi production peaked in 1981 at 9,903 thousand barrels per day. The United States imported about 13 percent of Saudi production in 1981. By 1985, Saudi production had fallen by two-thirds to 3,290 thousand barrels per day. The United States imported 4 percent of Saudi production in 1985.

Country Origins of U.S. Petroleum Product Imports

The country origins of U.S. product imports shifted far less sharply over the period than it did for U.S. crude imports. Nevertheless, sources of U.S. petroleum product imports have shifted somewhat, partly in response to the efforts of some crude producers/exporters to move into "downstream" value-added operations through the development of domestic petroleum refining industries.

This trend underlies a shift toward a pattern of importing both crude and products from some countries. No single country supplied more than 5 percent of both crude and product imports in 1978, but in 1985 three countries (Canada, Mexico, and Venezuela) together supplied 47 percent of crude imports and 38 percent of product imports. Saudi Arabia, often cited as an example of the trend of crude producers to move into refined products, supplied 4 percent of U.S. crude imports and 2 percent of U.S. product imports in 1985.

IMPLICATIONS OF SHIFTING U.S. OIL IMPORT PATTERNS

The commodity composition of U.S. petroleum imports shifted over the 1978-85 period, away from crude and toward petroleum products, and away from low-value products such as residual fuel oil toward higher value products such as gasoline. Because U.S. petroleum imports shifted towards a more expensive mix of petroleum products, the cost of overall U.S. petroleum imports has been higher than it would otherwise have been—whereas the 1985 cost of crude imports was back to the 1978 level, the 1985 cost of overall petroleum imports was still almost 20 percent above the 1978 level.

The 1986 crude price declines will accelerate the downward trend in the U.S. petroleum import bill. Assuming first-half 1986 trends are maintained, the average price of a barrel of imported petroleum will be much lower, both because of lower prices for crude and various refined products and because crude will occupy a greater share of the total volume of U.S. petroleum imports. However, only part of the fall in crude prices will show up as a decline in the overall cost of petroleum imports, in part because the volume of petroleum consumed and imported by the United States will probably increase somewhat as prices fall, and in part because the average price of imported petroleum products will probably decline less than crude prices.

In addition, these shifting trends in U.S. petroleum imports will continue to play an important role in determining the earnings of domestic producers, refiners, equipment suppliers, and other companies. The recent decline in crude prices has reduced the current value of crude (and equipment used to produce crude), a development which has induced a major decline in both current operating revenues and planned investments. The possible offsetting benefits that might be expected to flow to refiners are difficult to gauge, both because of very significant differences among refiners and because of large monthly fluctuations in the market conditions affecting refiners in general; average refining margins in the first three months of 1986 declined substantially, but by mid-April had rebounded substantially.

The outlook for near-term sources of U.S. petroleum is less clear. Certainly non-OPEC countries will continue to be a major source. With the 1985 decision by Saudi Arabia to abandon its role as the swing producer and to enter into netback pricing agreements, Saudi Arabia could once again become a main source of petroleum imports. Indeed, during the first two months of 1986, U.S. petroleum imports from Saudi Arabia were up by 525 percent compared to the same 1985 period.

Contribution of Exports to U.S. Employment

By Lester A. Davis

Exports remain a major source of U.S. employment in most sectors—one in six jobs in manufacturing. Over one-third of the total export-generated jobs are in services.

The growth of U.S. merchandise trade deficits has increased interest in the impact of trade on the U.S. economy. This report focuses on the total jobs generated by all U.S. goods exports between 1980 and 1984, with separate data on export-related jobs in manufacturing, agriculture, other goods sectors and in service industries. For the first time the estimates cover employment in capital goods needed to produce exports. Also new are separate data on export jobs in high-tech versus non-high tech manufacturing, on jobs in exports to Canada, Mexico, Japan, and the European Economic Community, and data on the export jobs impact of productivity growth and of increased use of imported inputs.

Exports continue to be an important source of U.S. employment. In 1984 a total of 5.5 million full-time equivalent U.S. jobs were directly and indirectly generated by total U.S. exports (Table 11.7). Every billion dollars of exports generated an average of 25,800 jobs.

Table 11.7

Export-Related Employment, by Exporting and Employing Sectors in 1984 (Thousand full-time-equivalent jobs)

Exporting Sector	Employing Sectors: All Sectors	Manufacturing*	Agriculture	Other Goods	Services
All Goods	5,453	2,626	639	235	1,953
Manufactures* ..	4,028	2,470	26	93	1,441
Agriculture.....	1,120	108	611	22	379
Other Goods	304	48	2	121	134

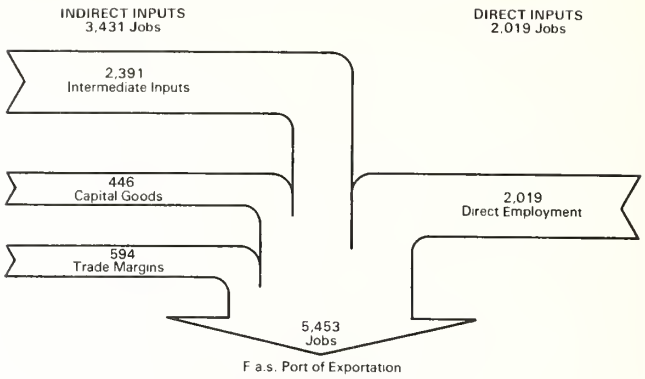
* SITC 5-9.

Far more jobs are generated by exports than just those directly needed to produce the final product. For every job directly required by exports nearly two more jobs are indirectly required, including jobs upstream in intermediate and capital goods inputs and downstream in the goods and services needed to move the finished goods to the port for export (Figure 11.28).

In 1984 over one-half of the total jobs generated by exports were in manufacturing and over one-third in services, the balance in agriculture and other goods sector production (Figure 11.29). Export jobs were most important to the manufacturing sector, with exports accounting for 16 percent of that sector's jobs—a little over one out of every six jobs in manufacturing.

Figure 11.28

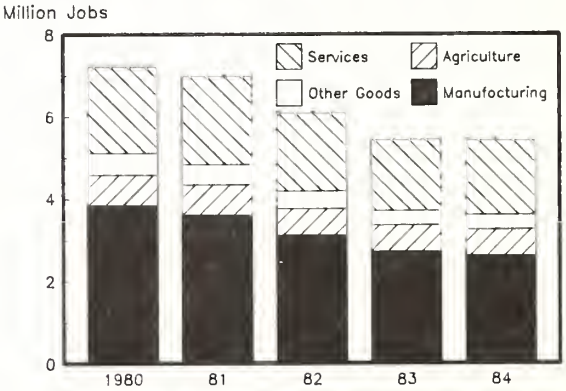
Input Sources of Jobs Generated by Exports in 1984 (Thousand full-time-equivalent jobs)



*Goods and services to move products from point of production to point of exportation

Figure 11.29

EXPORT-GENERATED JOBS BY EMPLOYING SECTOR 1980-84, (In Full-time Equivalent Jobs)



Manufactures exports in 1984 generated over 4.0 million jobs in all sectors in 1984, nearly three-fourths of the total generated by all U.S. exports.

Between 1980 and 1984, employment related to exports of goods dropped by 1.8 million jobs, a 25 percent decrease. The 1980-84 decrease in goods export-related jobs heavily impacted total U.S. employment. Indeed, the drop in export-related jobs offset nearly one-third of the gains in U.S. jobs generated by increased output for domestic demand (Figure 11.30). The negative effect of decreased export employment was even more severe on manufacturing jobs. Between 1980 and 1984 export-related jobs in manufacturing decreased by 32 percent—down 1.2 million jobs—while manufacturing jobs generated by domestic demand by 1984 had virtually recovered to their 1980 peak. Export-related jobs accounted for 80 percent of the total 1980-84 decrease in manufacturing employment.

Dissecting the 1980-84 reduction in export jobs by causal factors, decreased export volume cut 900,000, increased productivity cut nearly as many—700,000, and increased use of imported raw materials and components cut 200,000 (Figure 11.31). However, without the cost savings contributed by productivity growth and increased use of imported inputs, U.S. exports might have fallen even more.

Figure 11.30

CHANGES IN EMPLOYMENT GENERATED BY EXPORTS AND DOMESTIC DEMAND, 1980–84 (In Full-time Equivalent Jobs)

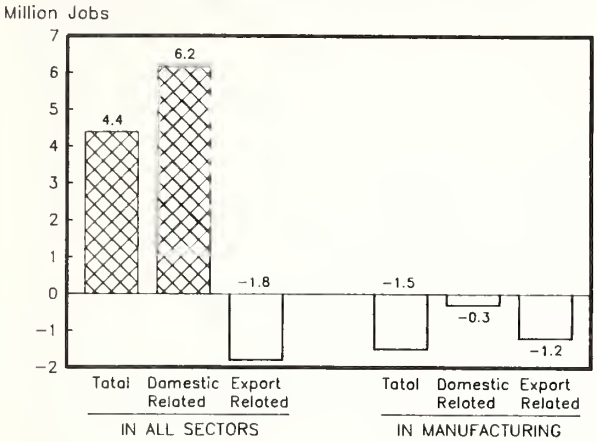
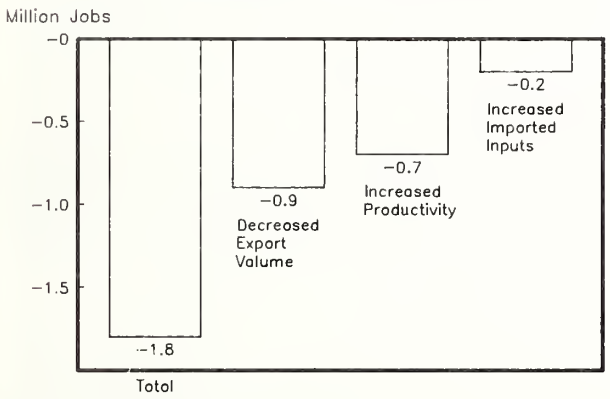


Figure 11.31

REDUCTION OF EXPORT-GENERATED JOBS BY MAJOR FACTORS, 1980–84 (In Full-time Equivalent Jobs)



High-tech export-generated employment accounted for 800,000 jobs in 1984. The high-tech share of total export jobs in manufacturing has been rising slightly, reaching in 1984 nearly one-third of all export jobs in manufacturing. The 1980-84 drop in U.S. exports affected high-tech jobs less severely than non-high tech jobs, reflecting the relatively stronger competitiveness of U.S. high-tech exports.

Jobs generated directly and indirectly in ten individual industries accounted for 20 percent of the total generated by exports in 1984 (Table 11.8). Grains continued to lead all other industries as an employer in export-generated jobs, but high-tech industries accounted for a large share of the top ten.

Four foreign markets accounted for over one-half of total U.S. export-generated jobs in 1984. Exports to the European Community accounted for 1.2 million jobs, to Canada 1.0 million, Japan 615,000 and Mexico 281,000 (Figure 11.32). The EC accounted for one-third of the 1980-84 decrease in export-related jobs. Jobs in exports to Mexico were cut by 40 percent, far more than to other other markets, reflecting Mexico's cut-back of imports to meet foreign debt obligations.

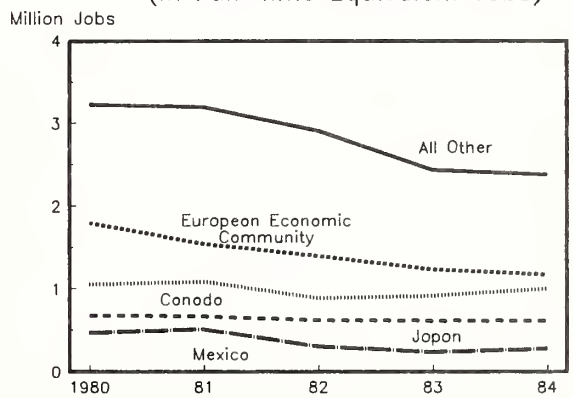
Table 11.8

Top Ten Export-Related Employing Industries in 1984 (Thousands of jobs)

	Total of Direct & Indirect	Total Direct only	Direct Per $bill. Exports
Grains (ex. soybeans)	256	205	13.9
Electronic computing equip	149	107	8.3
Electronic components	147	71	8.8
Oil bearing crops (incl. soybeans)	143	109	14.3
Industrial chemicals	100	44	4.3
Livestock and poultry	82	10	15.6
Aircraft parts (ex. engines)	72	55	9.6
Printing and publishing	63	16	11.6
Aircraft	59	52	8.9
Other motor vehicle equip. & parts	58	33	3.6

Figure 11.32

U.S. JOBS GENERATED BY EXPORTS TO MAJOR FOREIGN MARKETS, 1980–84 (In Full-time Equivalent Jobs)



ESTIMATION METHODS [23]

The Office of Trade and Investment Analysis published in May 1983 estimates of export-related employment for 1980 and 1982 and in 1984 released a preliminary 1984 estimate. This report is based on a new detailed analysis for each of the years 1980-84. It increases the total 1984 estimate from 4.5 to 5.5 million jobs. One important cause of the increase is the first-time inclusion of jobs generated by capital goods used to produce exports.

Estimates in this paper are based on total domestic input-output requirements coefficients for goods and services inputs related to U.S. domestic merchandise exports for each of the years described. The amount of inputs supplied by imports are subtracted from total direct requirements to estimate total domestic requirements. Briefly, to estimate domestic output requirements, these domestic

[23] The input-output computations in this paper were produced by Dr. Douglas E. Nyhus of the Interindustry Economic Research fund, University of Maryland, using the INFORUM input-output models and data bases, and using specially prepared export data supplied by the author from data collected by the U.S. Bureau of the Census.

total requirements coefficients for each year were multiplied by vectors of U.S. exports in those years. Export-related domestic job requirements were estimated by multiplying the output requirements by concurrent output to full-time-equivalent job ratios.

The contribution of productivity growth to reduced employment between 1980 and 1984 was estimated as the difference between the export-related output multiplied by the employment/output ratios for 1980 and for 1984.

Export-related employment in this report is in terms of full-time equivalent civilian jobs, including self-employed workers, rather than in numbers of workers employed full and part time. Goods termed "manufactures" are those in SITC (Standard International Trade Classification) classes 5-9. The classification of employing industries as high-tech is according to the "DOC-3" definition used by the Department of Commerce in analyses of U.S. foreign trade.

More detailed analysis and information is in a separate paper on this topic by the Office of Trade and Investment Analysis, available from the U.S. Government Printing Office (GPO stock number: 003-009-00476-4).

U.S. Manufacturing Output and Employment Generated by Manufactures Exports, by State and Metropolitan Areas In 1983

By Georg M. Mehl

Manufactures exports continue to be major sources of output and employment for many states and U.S. metropolitan areas.

Output and employment generated in the U.S. manufacturing sector by manufactures exports is a vital part of the total U.S. output of goods and services and corresponding employment generated by total U.S. merchandise exports. In 1983, total U.S. exports generated directly and indirectly a total of 5.5 million jobs in all sectors of the U.S. economy, and 2.7 million jobs in the manufacturing sector. Three-fourths of the manufacturing jobs—2.0 million as estimated by the U.S. Bureau of the Census—were directly and indirectly generated by manufactures exports.

In 1983, the United States exported $142.3 billion (f.o.b., plant value) in manufactured goods. These manufactures exports directly generated 1.1 million manufacturing jobs that year. They also generated indirectly $91.2 billion dollars of supporting U.S. manufactures shipments—goods incorporated into those exports as intermediate inputs—and 900 thousand manufacturing jobs. Thus, these direct and indirect (or supporting) exports sustained a total of 2 million jobs in the U.S. manufacturing sector, about 10.8 percent of all manufacturing employment. The total $233.5 billion in U.S. shipments of manufactures related to manufactured exports equals 11.3 percent of the total value of shipments by the U.S. manufacturing sector in 1983.

Not included in this report are the manufacturing jobs needed to provide manufactured inputs into non-manufactured exports. For example, not included are the jobs needed to manufacture the tractors necessary to grow agricultural products that were exported. The number of export-related jobs in all sectors that were sustained by manufactures exports in 1983 totalled 3.9 million, which was 3.7 percent of total domestic civilian employment that year.

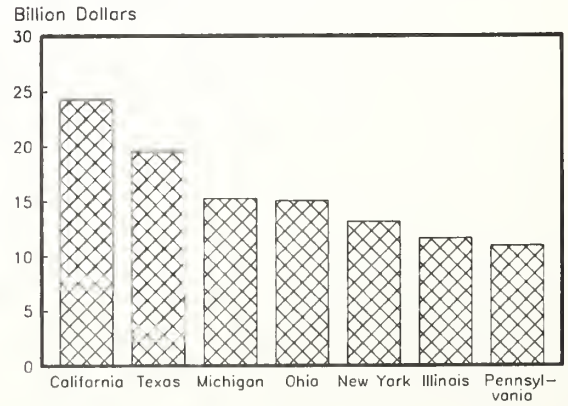
Also not covered in this report are 1.8 million jobs in non-manufacturing sectors generated by manufactures—those in business services, wholesale and retail trade, transportation, mining, and agriculture. Examples include those in agriculture and mining needed to produce raw materials for manufactured goods and trucking to haul finished products to seaports for export and those in banking and insurance to facilitate export transactions.

STATE EXPORT-RELATED OUTPUT

Among the fifty states and the District of Columbia, California was the largest supplier of manufactured direct and supporting exports, with estimated shipments of $24.3 billion, followed by Texas, Michigan, Ohio, New York, Illinois and Pennsylvania (Figure 11.33). These seven states—each having over $10 billion in export-related sales in 1983—accounted for nearly half of the $233.5 billion in direct exports and supporting U.S. manufactures shipments in 1983.

Figure 11.33

STATES WITH LARGEST MANUFACTURES SHIPMENTS RELATED TO U.S. MANUFACTURES EXPORTS IN 1983

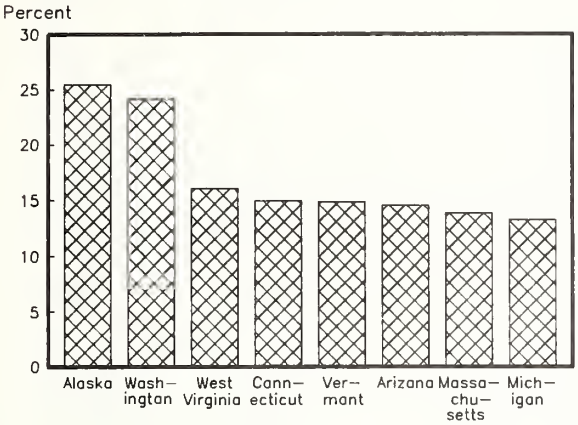


The individual state percentages of manufactured output sold as direct exports and supporting manufactures shipments varied widely, ranging from Alaska's 25.4 percent to the District of Columbia's estimated 3.9 percent. Generally, the states with the greatest percentages of export-related manufactures were not the largest dollar volume exporters. In second place after Alaska was Washington, with 24.1 percent of its manufactures export related. Six other states had manufactures export percentages greater

than 12.5 percent, i.e., one out of every eight dollars of sales of manufactured products was generated by direct and supporting manufactures exports. In descending order, these states were West Virginia, Connecticut, Vermont, Arizona, Massachusetts and Michigan. Of these eight states, only Michigan ranked among the top states in terms of total export-related value (Figure 11.34).

Figure 11.34

STATES WITH LARGEST SHARE OF MANUFACTURING SHIPMENTS RELATED TO MANUFACTURING EXPORTS IN 1983



STATE EXPORT-RELATED EMPLOYMENT

In 1983, the Census Bureau estimated that slightly over two million manufacturing jobs were attributable to direct exports and supporting shipments of manufactured products. This number represented about 10.8 percent of the total jobs held in U.S. manufacturing industries. In other words, almost one out of every nine jobs in the manufacturing sector was sustained by foreign demand for our manufactures.

California's manufacturing industries had by far the highest number of manufactures jobs related to manufactures exports—237 thousand. Ohio placed a distant second with 136 thousand manufacturing jobs generated by exports, while five other states—New York, Texas, Pennsylvania, Michigan, and Illinois—each counted over 100 thousand export-related manufacturing jobs (Figure 11.35). Together, these seven states accounted for 971 thousand export-related manufacturing jobs, nearly one-half of the total 2.0 million jobs in all fifty states and the District of Columbia.

The percentage of each state's total number of manufacturing jobs that was manufactures export-related varied widely from state to state. Alaska, which has one of the smallest manufacturing labor forces, nevertheless owed 28.4 percent of its manufacturing jobs to manufactures exports. Manufactures exports provided nine other states with at least 12.5 percent of the jobs in their manufacturing labor force, meaning that more than one out of every eight jobs in their manufacturing sectors was sustained by manufactures exports. In descending order, these states were Washington, Arizona, Vermont, Texas, Connecticut, Colorado, Oregon, Massachusetts, Delaware, and Michigan. Only Texas and Michigan were also among the states with the largest number of manufactures export-related labor forces (Figure 11.36).

Figure 11.35

STATES WITH LARGEST NUMBER OF MANUFACTURING JOBS RELATED TO MANUFACTURES EXPORTS IN 1983

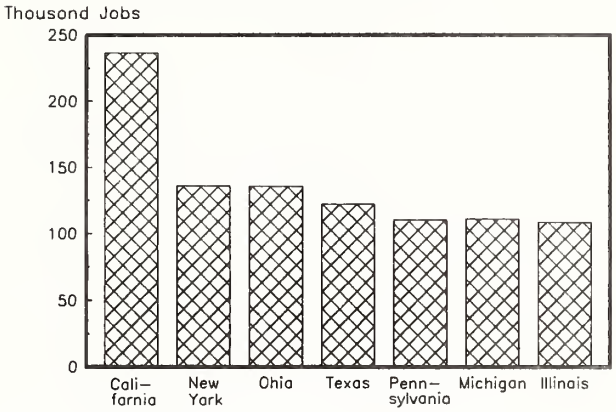
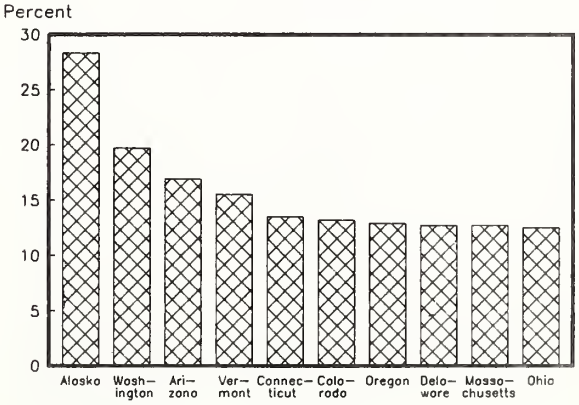


Figure 11.36

STATES WITH LARGEST SHARE OF MANUFACTURING JOBS RELATED TO MANUFACTURES EXPORTS IN 1983



An overview of the 50 states' manufactures shipments and employment that are export-related is given in Table 11.9.

METROPOLITAN EXPORT-RELATED OUTPUT & EMPLOYMENT

Nine metropolitan areas each had manufactures export-related manufactures shipments of $5 billion or more, with the Los Angeles—Anaheim—Riverside CMSA registering nearly $14 billion in direct exports and supporting shipments. The Chicago—Lake County—Gary CMSA was second, with $9.8 billion, followed by the New York, Detroit, San Francisco, Seattle, Boston, and Houston metropolitan areas (Figure 11.37).

Table 11.9

State Manufacturing Output & Employment Related to Manufactures Exports in 1983

State	Shipments (Million $)	Shipments Rank	Employment (1,000 jobs)	Employment Rank
Alabama	3642.7	22	29.0	22
Alaska	648.3	41	3.1	43
Arizona	2047.6	31	24.8	24
Arkansas	2409.4	27	16.1	31
California	24295.4	1	236.8	1
Colorado	2119.3	29	25.8	23
Connecticut	4773.2	17	57.2	12
Delaware	1120.0	36	8.5	38
Dist. of Col	66.3	51	0.5	50
Florida	4895.1	15	42.6	15
Georgia	4488.7	19	39.5	17
Hawaii	265.2	44	0.9	49
Idaho	609.0	42	4.3	42
Illinois	11682.5	6	108.9	7
Indiana	8184.1	9	64.9	11
Iowa	2872.2	25	19.6	29
Kansas	2043.8	32	14.4	32
Kentucky	3157.9	24	21.7	27
Louisiana	6066.1	13	18.0	30
Maine	850.3	39	8.2	39
Maryland	2099.0	30	22.6	26
Massachusetts	7025.9	11	80.7	8
Michigan	15308.6	3	111.4	6
Minnesota	3880.9	21	41.2	16
Mississippi	1917.3	33	14.0	33
Missouri	4564.4	18	36.1	19
Montana	252.7	46	1.3	47
Nebraska	1151.3	35	7.6	40
Nevada	176.1	49	1.7	44
New Hampshire	843.5	40	12.0	34
New Jersey	6797.0	12	73.1	9
New Mexico	258.8	45	1.5	45
New York	13211.2	5	136.3	2
North Carolina	7532.1	10	65.9	10
North Dakota	216.6	48	1.3	48
Ohio	15104.9	4	136.1	3
Oklahoma	2549.8	26	20.0	28
Oregon	2335.1	28	24.1	25
Pennsylvania	10985.3	7	118.7	5
Rhode Island	883.2	38	12.0	35
South Carolina	3625.2	23	33.8	21
South Dakota	224.6	47	1.4	46
Tennessee	4860.7	16	38.5	18
Texas	19598.9	2	122.6	4
Utah	915.0	37	8.8	37
Vermont	552.2	43	6.9	41
Virginia	4387.6	20	35.2	20
Washington	9134.6	8	54.3	13
West Virginia	1622.3	34	11.0	36
Wisconsin	5155.6	14	50.1	14
Wyoming	113.7	50	0.3	51

In terms of employment, the Los Angeles CMSA also has the largest number of export-related jobs in manufacturing, 136 thousand. These jobs accounted for over 57 percent of all California's export-related employment in manufacturing. Five other metropolitan areas had over 50 thousand export-related manufacturing jobs—the New York, Chicago, Boston, San Francisco and Detroit CMSAs (Figure 11.38). To put this number into perspective, only fourteen states had more than 50 thousand export-related manufacturing jobs in 1983.

Figure 11.37

METROPOLITAN AREAS WITH LARGEST MANUFACTURES SHIPMENTS RELATED TO EXPORTS OF MANUFACTURES IN 1983

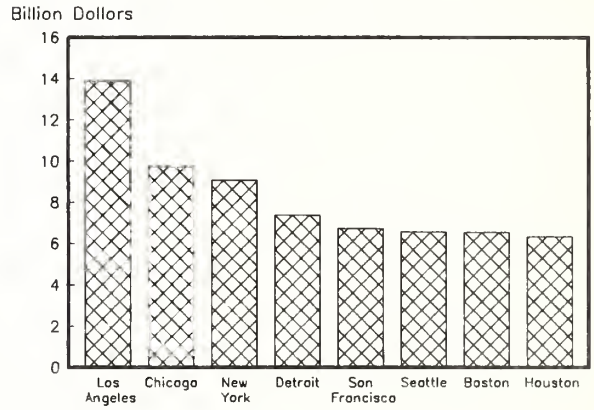
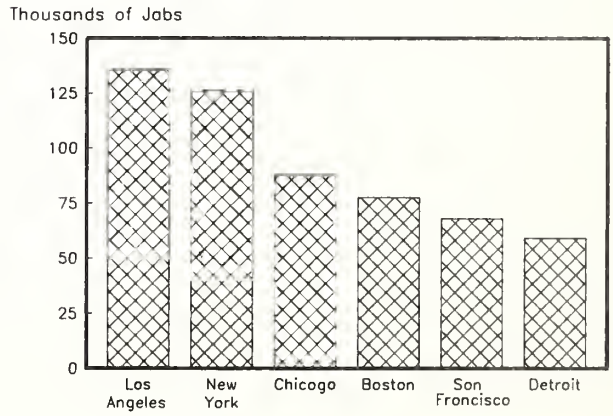


Figure 11.38

METROPOLITAN AREAS WITH LARGEST NUMBERS OF OF MANUFACTURES JOBS RELATED TO MANUFACTURES EXPORTS IN 1983



The manufacturing sector totals for the 33 selected MSA/CMSAs are summarized in Table 11.10. These totals represent the sums of all manufacturing industries that operated in the MSA/CMSA in 1983.

METHODOLOGY

The state data in this report are from the U.S. Bureau of the Census' *Origin of Exports of Manufactured Products, 1983 Annual Survey of Manufactures.* The estimates of manufacturing output and employment related to manufactures exports in 33 of the nation's large metropolitan areas in 1983 are based on data reported in Census': *1983 County Business Patterns.* The export-related figures include both *direct* export sales and shipments of

Table 11.10

Manufactures Employment and Shipments Related to Manufactures Exports in 33 Major U.S. Metropolitan Areas in 1983

Metropolitan Area	Employment (Thousand jobs)	Shipments (Million dollars)
Atlanta, GA MSA	14.7	$1,635
Austin, TX MSA	5.1	$508
Baltimore, MD MSA	15.4	$1,539
Birmingham, AL MSA	4.8	$393
Boston—Lawrence—Salem, MA CMSA	77.9	$6,597
Buffalo—Niagara Falls, NY CMSA	11.0	$1,355
Chicago—Gary—Lake Co., IL, IN, WI CMSA	88.1	$9,804
Cleveland—Akron—Lorain Co., OH CMSA	40.4	$4,186
Dallas—Ft. Worth, TX CMSA	40.9	$4,736
Denver—Boulder, CO CMSA	17.2	$1,392
Detroit—Ann Arbor, MI CMSA	59.5	$7,436
Houston—Galveston—Brazoria, TX CMSA	33.1	$6,398
Indianapolis, IN MSA	11.8	$1,438
Kansas City, MO, KN CMSA	9.9	$1,170
Los Angeles—Anaheim—Riverside CA CMSA	135.9	$13,930
Miami—Ft. Lauderdale, FL CMSA	10.5	$1,059
Milwaukee—Racine, WI CMSA	22.5	$2,178
Minneapolis—St. Paul, MN MSA	31.0	$2,684
New Orleans, LA MSA	4.9	$1,544
New York—Northern New Jersey—Long Island—Connecticut CMSA	126.4	$9,120
Oklahoma City, OK MSA	5.6	$600
Philadelphia—Trenton PA, NJ CMSA	45.9	$4,276
Phoenix, AZ MSA	19.3	$1,462
Pittsburgh—Beaver Valley, PA CMSA	23.1	$2,024
Portland—Vancouver, OR, WA CMSA	15.1	$1,474
Rochester, NY MSA	20.0	$2,123
Salt Lake City—OGDEN, UT MSA	6.3	$604
San Antonio, TX MSA	4.9	$572
San Diego, CA MSA	15.1	$1,411
San Francisco—Oakland—San Jose CA CMSA	68.3	$6,782
St. Louis, MO MSA	19.7	$2,679
Seattle—Tacoma, WA CMSA	36.7	$6,618
Tampa—St. Petersburg—Clearwater FL CMSA	7.7	$846

manufactures to other U.S. industries who then incorporate these intermediate shipments into their own direct exports (*indirect* exports).

Metropolitan Statistical Areas (MSAs) are defined as a group of contiguous counties that contain a large urban population. Consolidated Metropolitan Statistical Areas (CMSAs) contain at least two contiguous MSAs; some large metropolises, such as the New York—New Jersey—Connecticut metropolitan area, may have a half-dozen or more MSAs included in their boundaries, containing twenty or more counties in the three states.

The MSA/CMSA's contribution to its own state's export-related manufactures shipments and employment for an individual industry is based on the ratio of MSA/CMSA workers to the state total for each industry. The MSA/CMSA's employment in each industry is the sum of the jobs in each of the included counties reported in *1983 County Business Patterns*. It is assumed that, if 10 percent of a state's workers in a particular industry are employed within the boundaries of a MSA/CMSA, then ten percent of that state's total export sales and export-related employment for that industry can be attributed to the MSA/CMSA. The MSA/CMSA total exports of manufactures export-related shipments and employment is the sum of those estimates for each of the manufacturing industries in that area.

In cases like the Philadelphia CMSA, which covers counties in New Jersey as well as Pennsylvania, the contribution in each state are separately estimated and then simply added together.

More detail on two-digit SIC manufacturing industries for each state and the 1983 MSA/CMSA export-related output and employment of the 33 MSA/CMSAs will be provided in the forthcoming publication by the Office of Trade and Investment Analysis *Origin of Exports of Manufactured Products; Profiles of the 50 States and 33 Selected MSAs in 1983.*

U.S. International Competitiveness; Conceptual and Measurement Problems

By Allen J. Lenz

A nation's international competitiveness is an elusive, but important concept. Misuses of data and lack of a generally accepted definition may produce misunderstandings. A nation's trade balance is a poor measure of its international competitiveness.

Recent huge increases in U.S. trade deficits and a rapidly growing U.S. international debtor position have raised concerns that "U.S. competitiveness" in international markets has declined. Despite widespread concerns and frequent discussions about the issue, many misconceptions exist about U.S. competitiveness in world markets. What is it? How is it measured?

The competitiveness of an individual firm is quite easily measured by a few relatively simple indicators. These would include: the annual profit and loss statement and balance sheet; the price of the firm's stock, which includes a collective assessment of the firm's future prospects; and market share, which reflects the relative competitive position and trends of the firm in its markets.

A nation's competitiveness in international markets is, however, not so readily measured. There is no national profit and loss statement or balance sheet; measurements of a nation's share of global markets are flawed and distorted by various factors; and there is no close equivalent to a market evaluation of a firm's stocks.

In fact, a nation's international competitiveness is an often cited, but elusive concept that means different things to

different people. There exists no precise, generally accepted definition of international competitiveness. This leads to misuses of data and a lack of understanding of an important concept.

A nation's ability to compete in global markets is very important to its economic progress. Indeed, as national economies are more integrated into the global economy and as exports and imports become larger portions of national GNPs, a nation's ability to sell its products abroad and to compete successfully in its own home market with imports (foreign goods) will become ever more critical in determining trends in the living standards of its people.

This paper provides a definition of a nation's competitiveness in international goods and services markets, looks at some of the shortfalls of indicators often purported to measure national competitiveness, and briefly notes some measurements of the underlying causal factors which ultimately determine a nation's international competitiveness. Only measurement techniques and problems are addressed. No assessment of the state of or trends in U.S. competitiveness is included. The paper treats the problems of defining and measuring *national* competitiveness, not those of individual industries' competitiveness.

INTERNATIONAL COMPETITIVENESS: WHAT IS IT?

Various performance measures are often cited as indicating increasing or declining competitiveness of a nation in international markets. Some examples: widening trade imbalances, changing export shares in international or individual country markets, and changing import penetration ratios in the home country market. Worsening performance as measured by each of these may be indicative of problems, but does not necessarily denote declining international competitiveness. Each of these measurements has some technical limitations (these are reviewed later in this paper), but each also has more fundamental limitations as an indicator of international competitiveness.

For example, the trade balance for a given year is a snapshot of a nation's trade performance for that year. A large trade deficit does indicate that the deficit country was not "competitive" that year in the sense of not balancing its trade—not being able to sell as much abroad as it bought from abroad. But in the long run all nations must achieve rough cumulative balances in their goods and services trade. No country can indefinitely import significantly more than it exports. The international trade and financial systems force changes in exchange rates, national economic growth rates, relative prices, and other factors that operate to ensure that—over time—a rough balance in external accounts is achieved.

Even the poorest countries must ultimately be "competitive" in the sense of balancing their international accounts over time, though perhaps at real wage levels that support only very low standards of living. Moreover, a host of changing international and national macroeconomic factors operate to cause temporary trade account imbalances—both deficits and surpluses—that may not be long term in nature. Trade balances are, therefore, very flawed measurements of a nation's ability to compete internationally in advancing its living standards.

Currency exchange rates and inter-country differences in economic growth rates are two of the most important variables that operate to effect changes in trade balances. Changes in these variables are also likely to alter market shares and import penetration ratios. Thus, if the dollar drops far enough, U.S. export volumes are sure to increase and import penetration ratios are sure to decline. But a cheap dollar is not in itself a desirable objective, since it has many negative connotations for national living standards. Similarly, slower or negative U.S. economic growth would improve the U.S. trade balance and might produce conditions that would tend to reduce import penetration ratios. But slower or negative economic growth is clearly undesirable.

These examples demonstrate that the trade balance, export market shares and import penetration ratios are flawed national competitiveness indicators because they do not tell the whole story. Each is an indicator of performance in a single factor during a given period, without regard to the overall long-term effects on national well-being.

The shortcomings of these indicators and their frequent misuse make it important that international competitiveness be defined in a broader framework of national well-being and that there be a better understanding of ways in which international competitiveness can and cannot be measured. The President's Commission on Industrial Competitiveness provided the following definition:

> *Competitiveness is the degree to which a nation can, under free and fair market conditions, produce goods and services that meet the test of international markets while simultaneously maintaining and expanding the real income of its citizens.*

The critical elements in this definition are first, competing in free and open markets—avoiding the self-defeating props of market restrictions—and second, competing in a fashion that—over the longer term—maintains and increases real incomes. This second factor implies that, over the long term, a rough cumulative balance in trade is achieved without an associated decline in real wages and without an unduly weakened dollar that would be one cause of declining real wages.

A third noteworthy factor is in the phrase "The degree to which a nation can . . .meet the test of international markets." A declining wage level would clearly appear to be a sign of declining international competitiveness. But is a nation really "competitive" if, although its real wages are rising, the rate of increase is lower than those of some other countries? The answer is not clear and depends on judgments about national life styles, objectives, etc. One answer might be, for example, that a nation is still internationally competitive even though growth of its real wage levels is slower than those of competitors, if its existing real wage levels and standards of living are still well above those of its competitors.

There is no single, simple, direct measure of international competitiveness that takes into consideration longer

term national well-being. One problem is that short-term movements may obscure long-term trends. For example, individual firms and workers in exporting and import-competing industries may appear to be immediately helped by a falling dollar and hurt by a rising dollar. Similarly, national employment levels may—in the short term—appear to be aided by a falling dollar and impaired by a rising dollar. But a weakening national currency is not necessarily in the long-term interests of the nation as a whole.

In essence then, probably only *longer-term trends* in the international competitiveness of a nation as defined above can be identified and these cannot be precisely measured. Probably the best that can be done is to examine a series of individually flawed direct and indirect measures of performance and interpret the implications for living standards in the longer term. In addition, examination of trends in measures of various underlying factors that are determinants of competitiveness can identify and, indeed, provide advance indicators of long-term trends in a nation's international competitiveness.

Another problem is that the decline of individual industries may be perceived as indicative of a national decline in competitiveness in world markets. But the composition of a nation's industries is constantly changing, responding to many factors, including new technologies and changing tastes as well as foreign competition. Because of the dislocations involved, the decline of some individual industries may be more visible than the emergence of equally important new industries. Thus, it is important to separate conceptually the competitiveness of individual industries from the competitiveness of the nation as a whole.

The next section of this paper looks at a few commonly used direct measures of international trade performance and describes some of their technical shortcomings as measures of a nation's competitiveness. The following section briefly reviews a few indirect measures. The final section reviews some measurements of underlying causal factors that are both current and leading indicators of international competitiveness.

DIRECT MEASURES OF TRADE PERFORMANCE

Trade and Current Account Imbalances

The current account is a broader measure of performance in international markets in a given year than is the merchandise trade balance. For example, the United States ran merchandise trade deficits for several years prior to 1982 that were offset by surpluses in other elements of the current account. But, as previously noted, neither trade nor current account imbalances are good indicators of international competitiveness as defined in this paper since these balances are determined by many factors and because adjustments ultimately occur that cause imbalances to narrow or be eliminated. Dramatic changes in trade and current account balances may signal problems, but not necessarily national competitiveness problems.

Market Share Measures

A variety of market share measurements are often used as indicators of "competitiveness". Two frequently used measures are *export market shares* and *import penetration ratios.*

Export market shares express the home country's exports as a portion of total home country and competitor country exports to a third country, a region or to the world. There are several fundamental shortcomings in the use of such shares as a measure of competitiveness. As already noted, exchange rate movements can over time radically change the real volume of inter-country trade flows and the resulting balances, but the resulting changes do not necessarily reflect changes in long-term national competitiveness.

Moreover, changes in currency exchange rates introduce distortions into the calculated results. For example, to calculate export market shares the exports of all countries included in the calculation must be translated from the exporting country currency into some common denominator currency—usually the dollar. An increase in dollar strength lowers the dollar-denominated value of foreign exports and, other things equal, biases the U.S. share upward. Thus, a rising dollar exchange rate could produce a rising U.S. market share even though, in volume terms, the U.S. share may be declining. A fall in the dollar has opposite effects on share calculations. "Volume shares" are sometimes calculated by "removing" exchange rate and relative price effects from the original data, but there is no very satisfactory way of doing this removal, and volume shares calculations produce highly uncertain and imprecise results.

Export market shares can be misleading for other reasons. In a prospering and increasingly integrated global economy, it would probably be unrealistic to expect the U.S. share of world exports to be as large as it was in the 1950s, just following World War II. Instead, the United States is better off with a smaller share of the larger "export pie" that exists today. On the other hand, if competitors appear to be surpassing the United States in export market shares, this may well be one sign of declining U.S. competitiveness.

Another opportunity for distortion results from the large size of the U.S. market and differential growth rates between the United States and other countries. Export share calculations capture only each country's exports to foreign markets. If the United States—a very large market—is experiencing more rapid economic growth than foreign economies, foreign exports to the United States are likely to increase more rapidly than U.S. exports. This situation would tend to bias downward calculations of the U.S. share of exports to the world, but would not similarly bias U.S. vs. competitor share calculations for exports to third countries or regions that excluded the United States.

Some also argue that share calculations are biased by trans-border shipments within a common market area, since intra-common market shipments are treated no differently for customs purposes than shipments within a member country. Measures of performance within a common market group might, they assert, thus be better limited to

the relative performance of non-members. This is not a satisfactory approach, however, since common markets are a fact of life and an important factor in the international competition to export.

Import penetration ratios attempt to relate imports to the size of the domestic market or to domestic production. One calculation method is to divide imports by apparent consumption (apparent consumption is calculated by subtracting exports from the sum of domestic production and imports). Penetration ratios also may be calculated by dividing imports by domestic production.

As with trade balances and export market shares, penetration ratios may change over time in response to exchange rate changes. For example, a fall in the dollar may decrease import penetration ratios, but such improvement may not necessarily indicate increased U.S. international competitiveness as defined in this paper.

Moreover, import penetration ratios will tend to move upward over time as the world economy becomes increasingly integrated and as world trade increases more rapidly than world production. In short, most industrialized countries will probably continue to have increasing import penetration ratios, but these cannot automatically be interpreted as indicating declining international competitiveness.

INDIRECT MEASURES OF TRADE PERFORMANCE

One key indicator of national well-being is the real wage level. A rising real wage is indicative of improving living standards. The effects of international trade ultimately spill over into the whole economy, but since U.S. trade is dominated by manufactured goods, trends in real wages in manufacturing are a useful indicator of U.S. international competitiveness. If real wages in the United States continue to rise over time in the face of international competition in open markets, then the nation would appear to be competitive in international markets, though the rate of increase relative to other advanced nations with similar living standards may be a consideration.

The index of industrial production is also useful since it provides a means of comparing rates of change in value of output against those of other countries. Manufacturing employment is also useful, but declining employment may, in large measure, be due to productivity increases essential to becoming more "competitive" internationally.

In all of these measurements, short-term changes may not be significant and longer-term trends are more important. Moreover, comparisons of each with trends in other countries can yield insights about differing directions and rates of change in the United States compared to its competitors.

UNDERLYING CAUSAL FACTORS IN DETERMINING INTERNATIONAL COMPETITIVENESS

Fundamentally, a nation's longer-term international competitiveness derives from its factor endowments—its heritage of land and other natural resources—and its stock of human and physical capital and how those stocks are utilized compared to its competitors. While natural resource endowments are essentially fixed and unchanging, their utilization and prices may change dramatically. For example, oil is discovered in the North Sea and exploited at rising prices that reach $30 per barrel, then fall back to $15 per barrel. Changes in the stocks and utilization of human and physical capital ususally occur only relatively slowly—but they do occur.

There are many measurements of changes in the stock and utilization of human and physical capital that foretell long-term trends in international competitiveness. Only a few are noted below.

Saving Rate

A high national saving rate can provide the means for investments that will help create new technologies and products and increase productivity, all critical elements in becoming or remaining internationally competitive. Investment capital can be borrowed from abroad, but those nations that generate saving adequate to meet their own investment needs have advantages over those that must go abroad.

Investment

The rate of growth in net investment in plant, equipment, and business spending on research and development is a key indicator—especially the rates for manufacturing industries. If investment by major competitors consistently increases more rapidly than that of the United States, competitors are likely to develop new products and raise productivity and lower costs more rapidly than the United States, improving their competitiveness in world markets.

Productivity Growth Rates

Changes in output per man hour are a common measure of productivity growth rates. Productivity growth results from increases in the stock of physical capital and improvements in the employment of human and physical capital. If the productivity of major competitors consistently increases more rapidly than that of the United States, U.S. international competitiveness will decline.

Labor-hour Costs

International comparisons of labor-hour costs are useful in explaining recent U.S. performance and, to some degree, in projecting future trends. These are highly aggregated measures, however, flawed in various ways. Accuracy is affected by the detail and quality of national statistics and the changing composition of national output, particularly in developing countries. The most important problem in international comparisons, however, is that of exchange rates. Movements in exchange rates can produce major changes in comparative labor-hour costs. But since the currencies of many LDCs tend to remain stable vis-a-vis the dollar, and since unit cost differentials between the United States and some of these countries are very wide, U.S. costs vis-a-vis some LDCs may change only relatively slowly.

Unit Labor Costs

Unit labor costs are another useful general indicator. This measure attempts to take into consideration productivity differences among countries and to isolate trends in unit costs of production. The exchange rate induced problems in international comparisons are similar to those for labor-hour costs, but rising unit labor costs relative to foreign competitors may be one piece of evidence of declining competitiveness.

SUMMARY AND CONCLUSIONS

A nation's "international competitiveness" is an important but elusive and not well-defined concept. Fundamentally, however, a nation is "competitive" in international trade if, over the long term, its participation in international trade contributes to a rising real standard of living. There will, of course, be differing degrees of competitiveness; i.e., real wage levels may rise at differing rates among nations.

Short-term direct and indirect measures of trade performance—trade balances, market shares, import penetration ratios, employment levels, industrial production indices, etc.—are useful but flawed indicators of the level or direction of a nation's international competitiveness because they focus on short-term events, rather than on longer-term performance and effects on the nation's standard of living.

In fact, there is no single, simple, direct measure of a nation's international competitiveness. Trends can, however, be discerned by looking at and interpreting a number of direct and indirect measures of trade performance and by examining performance in various factors that, in the longer term, tend to determine international trade "competitiveness".

Conversion of Data Classification to the Harmonized System [24]

By Victor B. Bailey

A new single internationally utilized product classification system for customs duties, export and import statistics and transport documents is fast approaching—as soon as 1988.

BACKGROUND

Trade data methodologies and classification systems (the ways in which commodities are described and categorized) differ substantially among countries. Although foreign trade data compiled by individual countries possess many common features, the detailed, disaggregated data usually are not comparable. Indeed, since countries gather trade data to meet their own individual needs, the classification systems and data methodologies have tended to remain divergent.

The lack of international standardization of foreign trade data collected by individual countries has made international comparisons based on original source data difficult. Increased international trade and economic interdependence have raised numerous foreign trade issues. The discussion of these issues, in turn, has increased the demand for accurate, detailed, and standardized import and export data. For example, effective trade negotiations require an ability to assess international competitive positions and to compare concessions. Detailed, accurate, and comparable foreign trade data also enable businessmen to assess foreign markets and sources of supply, and allow national governments to analyze the effects of trade on their economies. Thus, there has been increased pressure to standardize trade data among countries. In addition, there is an inherent appeal to harmonizing and simplifying the language of international trade.

To deal with the problems associated with these differing trade classification schedules, the world trading community has tried to move towards the use of a single foreign trade data classification system. In the 1950's, the United Nations developed the "Standard International Trade Classification" (SITC) system. Although most countries report on an SITC basis, the resulting trade data, in fact, are not strictly comparable. For example, Japanese data on an SITC basis may look like U.S. data on an SITC basis, but the actual commodities reported under a given SITC classification code may be, and frequently are, defined differently. In actual practice, SITC numbers are neither assigned by customs authorities nor used by personnel engaged in international trade. Rather, the Standard International Trade Classification system is an artificial reconstruction that bridges the many different originally-assigned commodity classification systems in use around the world.

Recognizing the shortfalls of the SITC system, a new international trade classification system—the so-called Harmonized System (HS)—has been developed. The new system will serve as a single internationally utilized product nomenclature for initially classifying products for customs duties, export and import statistics and transport documents. The use of a single, universally accepted set of product codes will eliminate or greatly reduce the problems generated by the various national trade classification systems. It is anticipated that world-wide implementation of this major change will occur early in 1988.

The Harmonized System is based on the Customs Cooperation Council Nomenclature (CCCN), formerly known as the Brussels Tariff Nomenclature (BTN). Approximately 150 countries that account for some three-fourths of world trade presently utilize CCCN to some extent as the basis for customs tariffs. Of the major countries, only the United States, Canada, the USSR, East Germany, and North Korea do not use CCCN as the basis for import and/or export tariffs.

Under the Harmonized System, for the first time, the same definitions and assumptions will be utilized by all adopting countries in foreign trade. The new tariff sched-

[24] See the ITA publication "Understanding United States Foreign Trade Data" (GPO stock number: 003-009-00463-2) for an in-depth discussion on foreign trade data methodology, including data classification schedules.

ule will be divided into 99 chapters. Chapters 1-97 will comprise the Harmonized System; Chapters 98 and 99 are reserved for national purposes. A new U.S. tariff schedule will identify items with a 10-digit numerical code that is derived from the Harmonized System, i.e., the first six digits will follow the international nomenclature. In the new system:

- digits 1 and 2 denote the HS chapter,
- digits 3 and 4 denote the HS heading,
- digits 5 and 6 code any subdivisions of the heading,
- digits 7 and 8 are national subheadings for the legal tariff, and
- digits 9 and 10 code any statistical annotations.

Accompanying the new system as an aid in determining the proper commodity classification are binding international and U.S. legal notes and non-binding explanatory notes and classification opinions. The Harmonized System will have almost 2,000 pages of additional explanatory notes to help explain the meaning and intent behind the provisions of the new data classification system.

The HS will also provide an international dispute settlement procedure (Article X) when countries disagree on the classification of goods. Article X provides that any disagreement shall be settled by negotiation but only recommendations can be issued. It is up to the individual country as to whether or not to accept the recommendation. However, in the final analysis, it will be the courts of the country involved which interpret the provisions of the Harmonized System.

The adoption of the Harmonized System will necessitate a revision of the U.N. SITC classification system to make it consistent with the Harmonized System. Accordingly, an HS-based SITC (Revision 3, i.e., SITC Rev. 3) has been developed by the United Nations Statistical Commission (and approved in March 1985). SITC Rev. 3 will go into effect at the same time as the Harmonized System.

IMPACT OF HS ON U.S. FOREIGN TRADE DATA SCHEDULES

The Harmonized System will cause extensive revisions in the arrangement and classification of U.S. foreign trade data. Currently, there are six major foreign trade data classification systems unique to the United States:

- TSUSA (Tariff Schedule of the United States, Annotated)
- Schedule B
- Schedule A
- Schedule E
- End-Use
- SIC (Standard Industrial Classification)-based

Under the Harmonized System, each of these trade data classification systems will change. These changes are noted below.

TSUSA and Schedule B

The Tariff Schedule of the United States, Annotated (TSUSA) and Schedule B are the very detailed classification systems in which U.S. import and export data are originally recorded. All other U.S. import and export data classification systems are some transformation of TSUSA and Schedule B.

TSUSA and Schedule B data collection begins at the commodity level (presently, a 7-digit code) but, to facilitate analysis, is aggregated by Census at various levels up to the 1-digit level. Under the HS, TSUSA and Schedule B will contain ten digits plus a check digit; i.e., six digits of the Harmonized System, four digits of greater detail, and a digit to check for data entry errors.

Unlike the current system, whenever possible, the same code number will apply to a particular item, whether it is an export or an import. If a TSUSA code number of a particular commodity is not identical to the Schedule B code number of the equivalent commodity, there will still be a direct relationship between imports and exports; i.e., the import code number will fall within a single export code number.

Schedule C

Schedule C is not a commodity classification system, but rather is a system of codes that identify countries or geographic regions of the world. This permits arrangements of U.S. trade data by country or regions. With the implementation of the HS, the current 3-digit country export codes and 4-digit import codes will be eliminated. In their place, the United States will adopt a 2-digit alphabetic International Standards Organization (ISO) structure (possibly changing to a 3-digit ISO code sometime in the future). These codes will be abbreviations for the name of the foreign country, usually as spelled in the native language. The ISO import and export country codes will be identical.

Schedules A and E

Schedules A and E are the rearrangement of TSUSA import data and Schedule B export data into a form closely resembling the SITC format. These schedules will be revised so they are identical to SITC Rev. 3. It is presently anticipated that when the Harmonized System is implemented, Census will change Schedules A and E to a 5-digit classification system, using the same number of digits as SITC. For the first time, Schedules A and E will be identical to SITC and may, in fact, be called SITC Rev. 3. Except for the number of digits, the physical format of the HS-based Schedules A and E (or SITC Rev. 3) will be very similar to the formats of the current Schedules A and E.

End-Use

This Bureau of Economic Analysis (BEA) rearrangement moves data from the original categories which classify items by characteristics of the goods themselves into categories associated with the principal users of the goods. Under harmonization, End-Use foreign trade data should

show little if any change in format from previous End-Use data. However, there will be indirect effects due to the change from the current TSUSA and Schedule B classification systems to the HS-based TSUSA and Schedule B systems.

SIC Trade Data

The Standard Industrial Classification (SIC) is still another data classification system unique to the United States. The SIC codes were developed to facilitate analyses of the linkages between foreign and domestic commerce, but it was difficult, if not impossible, to accurately compare domestic with foreign trade data. The next SIC revision, however, will make the SIC classes more closely fit the HS-based foreign trade data.

IMPACT OF HS ON DATA USERS

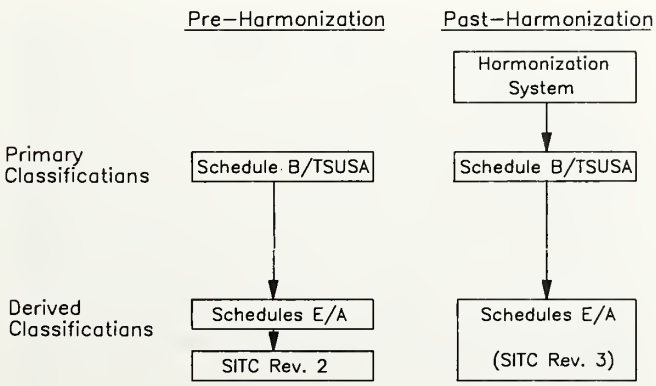
Figure 11.39 shows the current U.S. data classification systems relationships and what the U.S. data classification systems will be like, as presently contemplated, under Harmonization.

The Harmonized System, with its internationally standardized data, will change many aspects of foreign trade data usage—both in the United States and in other countries. In the short term, these changes will both simplify and complicate data usage. Over the long-term, however, the whole trading system will benefit from this standardization.

For businessmen, shifting to the HS has a number of benefits. For the first time, there will be uniformity and predictability in customs classifications. For example, harmonization will allow commodity differentiation to be more precise. Presently it is difficult to identify precisely a refined chemical as opposed to a basic raw material—especially for customs duty-rate calculations—since both products may have virtually identical descriptions in the foreign trade data schedules. The new HS-based codes, however, will define and classify these subtleties. Trade documentation will also be simplified and standardized.

Figure 11.39

U.S. MERCHANDISE EXPORT/IMPORT DATA CLASSIFICATION SYSTEMS



Assessments of foreign markets by businessmen will also be facilitated through data standardization. Standardization should lead eventually to a reduction in the U.S. cost of exporting.

For government trade negotiators, the adoption of the HS also will have pluses. Trade negotiations will be more efficient since commodity definitions and interpretations will be identical for all HS-signatory countries. Negotiators will not be concerned with the possibility of different countries using different definitions for the same commodity. The U.S. definition of semiconductors, for example, will be the same as the Japanese definition. Thus, the U.S. foreign trade data should be consistent with the Japanese foreign trade data. International competitive positions and concessions could be assessed more accurately. At the same time, harmonization will enhance the U.S. Government's ability to monitor and protect the value of tariff concessions.

Data users, whether businessmen, government analysts, or academics, will benefit from the basic standardization that will occur under the HS. For the first time, U.S. foreign trade data, as reported by Census, will be comparable to U.S. foreign trade data as reported by the United Nations or the OECD (i.e., the foreign trade data schedules will be equivalent in format and value).

Under harmonization, each country's trade data will use the same methodologies and definitions. Cross-country foreign trade comparisons will be more accurate and simple. These cross-country comparisons will be possible because U.S. foreign trade data methodology will be the same as, for example, German or Japanese foreign trade data methodology.

Implementation of the Harmonized System, however, will also create some difficulties. The implementation of the HS will complicate drastically time series analysis. The result of the HS will be a complete change in most if not all foreign trade data series on a world-wide basis. Many series will stop in 1987 and new series begin in 1988. The new series might have the same titles and/or descriptions but, unless there is information to the contrary, no import or export series should be considered to be completely consistent in the definition applied to individually numbered commodity classifications.

Census will produce concordances to bridge the discontinuities going from the present SITC-based U.S. foreign trade data schedules to the new HS-based schedules. However, many commodity series will change completely and it will not be possible to link the new series to the old. For example, several commodity numbers might be merged into a single commodity number. A single commodity code might be disaggregated into several new commodity code numbers. It is also possible that items within a given commodity code might be shifted into another commodity aggregation. In certain of these instances, it will be impossible to have any confidence in the results of time series analysis.

Dollar Exchange Rates: Performance and Caveats

By Martin Kohn

The dollar declined markedly from its February 1985 highs through the spring of 1986 against the currencies of Japan and Western European Countries. Against other currencies constituting well over half of U.S. trade, however, the dollar remained strong.

RECENT DOLLAR MOVEMENTS SUMMARIZED

The dollar in 1985 declined sharply in both nominal and real terms in the last ten months of the year against the currencies of Japan and Western European countries. Rapid depreciation of the dollar against these currencies has continued through the first 4-1/2 months of 1986.

Against the currencies of most of the rest of the world, however, the dollar, on an inflation-adjusted basis, has remained strong since February 1985. This has been true, for example, with respect to our first- and third-ranking trading partners, Canada and Mexico.

Large-scale depreciation of the dollar has thus been limited to the currencies of countries that account for well under half of total U.S. trade. The share of Japan and Western Europe in our bilateral trade was 40 percent in 1985.

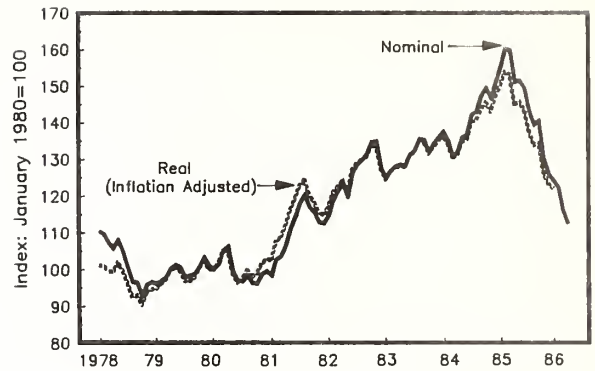
THE DOLLAR'S DECLINE AGAINST MAJOR CURRENCIES SINCE EARLY 1985

In nominal terms on a trade-weighted basis, the effective dollar exchange rate fell 32 percent against the yen and eight European currencies from the end of February 1985 through mid-May 1986.

The movement of the dollar against the nine currencies has been virtually the same in real (inflation-adjusted) as in nominal terms (Figure 11.40). Thus from February to December 1985, the dollar fell 22 percent on a nominal basis and 21 percent in real terms. Complete data in real terms are not available beyond December 1985, but partial data indicate that the nominal and real indices continue to follow closely matching paths.

The descent of the dollar since early 1985 follows a period of over 4-1/2 years during which the dollar more or less steadily rose. The dollar at the end of February 1985 was 63 percent higher against the yen and the eight European currencies in our index than it had been when its ascent began in July 1980. Sharp as its drop has been in the last 15 months, the dollar vis-a-vis the nine currencies is still 11 percent above its mid-1980 level. The only one of the nine currencies against which the dollar is now lower than it was in 1980 is the yen.

Figure 11.40
EFFECTIVE DOLLAR EXCHANGE RATE

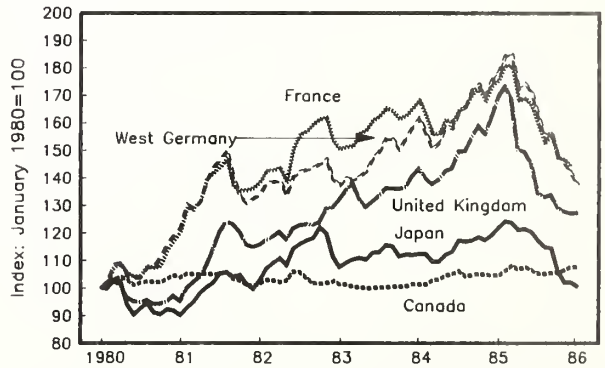


9 Industrial Country Currency Basket.
Weighted by (1984) U.S. Bilateral Trade

DOLLAR REMAINS STRONG AGAINST CURRENCIES OF CANADA, LDCs AND NICs

The dollar remained strong against the currencies of countries that account for over half of our trade. For example, the currency of Canada—the number-one U.S. trading partner—rose by only 2 percent in nominal terms against the U.S. dollar from the end of February through mid-May 1986. In real terms, there was no change from February 1985 through February 1986 (latest date for which Canadian price data are available) (Figure 11.41).

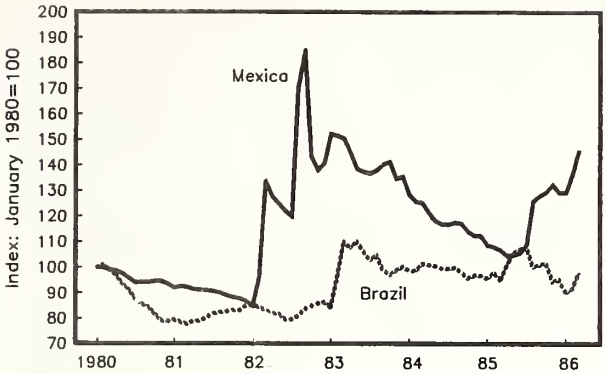
Figure 11.41
INDUSTRIAL COUNTRY/U.S. $ EXCHANGE RATES
(Inflation Adjusted)



Many developing and newly industrializing countries tie their currencies closely to the dollar. Given the rapid rate of inflation in most LDCs and NICs, calculations of changes in their exchange rates are informative only when expressed on an inflation-adjusted basis. Indeed, in real terms the dollar has actually appreciated against the currencies of several key LDCs and NICs. For example, the dollar vis-a-vis the Mexican peso was 20 percent higher in real terms in January 1986 than in February 1985. Mexico is the third largest U.S. trading partner. Against the currency of twelfth-ranking Brazil the U.S. dollar showed no change in real terms from February 1985 through March 1986 (Figure 11.42).

Figure 11.42

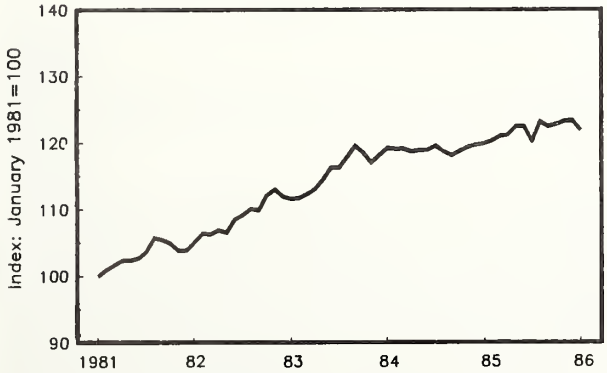
SELECTED OTHER LDC/U.S. $ EXCHANGE RATES
(Inflation Adjusted)



The dollar, on an inflation-adjusted basis, moved only marginally against the currencies of the four Asian NICs. Taking February 1985 as the starting point in each case, the dollar rose by 6 percent through February 1986 against the Korean won and by 3 percent through January 1986 against the Taiwanese dollar; it fell by 3 percent through February 1986 against the Hong Kong dollar and by 1 percent through January 1986 against the Singapore dollar. On a trade-weighted basis, the dollar was about 1 percent higher against the currencies of the four countries combined in January 1986 (Figure 11.43). These four accounted for about 10 percent of total U.S. trade turnover in 1985. The United States is overwhelmingly the largest buyer of the exports of each of the four.

Figure 11.43

EAST ASIAN NIC/U.S. $ EXCHANGE RATES
(U.S. Trade Weighted; Inflation Adjusted)



DOLLAR DEPRECIATION: NO PANACEA FOR THE TRADE DEFICIT

The fall in the dollar has not yet produced an improvement in the U.S. trade balance. Indeed, during the first quarter of 1986, the trade deficit was running at an annual rate about $25 billion above the 1985 deficit of $148.5 billion. Most projections, however, point to a substantial narrowing of the deficit in the second half of the year and in 1987. The failure of the falling dollar to cut the deficit so far is apparently a reflection of the inevitable lags between exchange rate changes and their impact on trade flows. Prices of traded goods are often slow to change in response to exchange rate swings, and, in any event, it takes time for new configurations of buyers and sellers to develop. Furthermore, on the import side, things often get worse before they get better because of the well-known J-Curve phenomenon: depreciation of a currency causes the value of imports to rise before downward pressure on the volume of imports becomes effective.

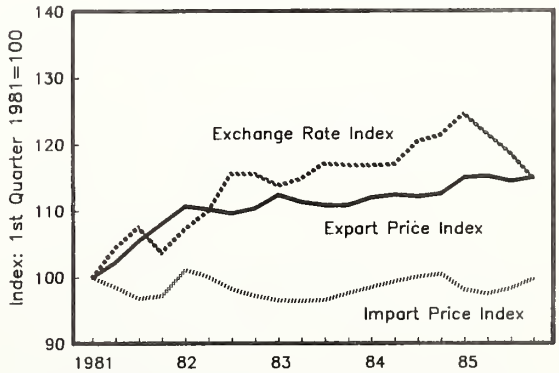
Beyond the normal time lags, however, many factors are likely to limit or offset the impact of dollar depreciation on the U.S. trade balance in the longer run. The amount of dollar depreciation that has taken place in the last 15 months is unlikely in itself to narrow U.S. merchandise trade deficits to the levels of the early 1980s. (The trade deficits in 1980-82 ranged from $36 billion to $43 billion.)

We have already noted that substantial depreciation of the dollar in the past 15 months has been largely restricted to the currencies of the industrialized countries that account for less than half of our trade. Thus exchange rate movements since early 1985 have not enhanced the price competitiveness of U.S. goods with respect to trading partners outside of Western Europe and Japan.

Even when exchange rate movements are sizable, price competitiveness may not change commensurately. For one thing, prices of traded goods may not move in line with alterations in exchange rates. In recent years dollar prices of U.S. imports have been quite stable relative to exchange-rate changes (Figure 11.44). This indicates that foreign exporters selling goods to the United States increased profit margins when the dollar was rising and, eager to maintain market shares, have allowed them to fall while the dollar has been declining.

Figure 11.44

U.S. MANUFACTURES TRADE PRICE
AND EXCHANGE RATE INDICES*



*16–Country Trade Weighted Index: Belgium, Brazil, Canada, France, Germany, Hong Kong, Italy, Japan, Korea, Mexico, Netherlands, Singapore, Sweden, Switzerland, Taiwan, and U.K.

Dollar prices of U.S. exports have also been sticky, implying that the foreign currency prices of such exports have been fluctuating in line with movements in the dollar exchange rate. However, to the extent that producers of goods in competition with U.S. exports have lowered prices since early 1985, improvement in the price competitiveness of U.S. goods has not been proportionate to the size of the drop in the dollar.

Even though the improvement will likely continue to fall far short of being proportionate to the change in the dollar exchange rate, the price competitiveness of U.S. exports and import-competing goods vis-a-vis Japan and Western Europe has increased over the last 15 months. Barring a reversal of the dollar's depreciation in this period or a resurgence of U.S. inflation, further gains in price competitiveness seem likely, since foreign producers presumably cannot indefinitely withstand a squeeze on profit margins. However, even under circumstances of a growing U.S. price advantage vis-a-vis major trading partners and competitors, other formidable obstacles to narrowing the trade deficit remain. These include:

- Relatively sluggish economic growth in the rest of the industrialized world, particularly in such economically powerful countries as Germany and Japan.
- The continuing serious external financial difficulties of many LDCs and NICs which require them to maintain export surpluses in order to service their foreign debt.
- Increasingly stiff competition for U.S. companies from low-wage LDCs and NICs.
- Trade restraints in many countries.
- Popular, culturally-based resistance to foreign goods. (This is a problem particularly in Japan, where an increase in purchases from the United States is crucial to improving our trade balance.)

U.S. trade in the 1980s illustrates how tenuous the relationship between changes in exchange rates and trade performance can be and how powerful the influence of other variables can be. For example, in 1980-85 U.S. imports tended to increase the most rapidly from those countries against whose currencies the dollar appreciated *least* (Table 11.11). The correlation between movements in the dollar and changes in exports was often quite loose, too.

Table 11.11

Percent Changes in Manufactures Trade and Real Exchange Rates, 1980-85

	Dollar Appreciation (Real)	U.S. Manufactures	
		Exports	Imports
Canada	3.9	43.4	83.1
Brazil	11.6	-32.8	217.3
East Asian NICs	18.3*	17.3	123.3
Japan	21.4	38.0	120.3
Mexico	21.6	-7.1	107.9
United Kingdom	49.4	-6.6	53.1
France	51.3	-12.5	81.0
West Germany	52.7	-6.8	71.7

* 1981-85 change.

STATISTICAL APPENDIX

DATA NOTES

The data in this report on U.S. foreign trade in merchandise and services are not uniformly based. Different data are used for reporting on merchandise and services trade. Merchandise trade data also differ between those originally reported (Census basis) and those transformed for balance-of-payments reporting. Merchandise trade data are initially produced by the Bureau of the Census, U.S. Department of Commerce, from records obtained directly from international shipments by the Bureau of Customs, U.S. Treasury Department. Services trade data are initially produced by the Bureau of Economic Analysis (BEA), U.S. Department of Commerce, from its own surveys and Census data. Merchandise trade data are also produced by BEA from these sources for reporting the U.S. balance-of-payments after adjusting the Census data to conform with the national income accounts.

Merchandise Trade Data

U.S. merchandise exports and imports from foreign countries consist of government and nongovernment shipments.

All Census merchandise trade data in this report for 1984 and 1985 are unrevised and as initially reported for the year.

The basic merchandise trade data in this report are on the same basis as the data first released each month by Census. That is, merchandise export data are the total of domestic and re-exported foreign merchandise, valued on a f.a.s. basis (free along side the international carrier at the port of exportation). Unless otherwise indicated, all U.S. export data include Military Grant Aid (MGA) and Special Category shipments.

Merchandise import data are for general imports, valued on a c.i.f. basis (cost, international insurance, and freight). General imports (in contrast to imports for consumption) reflect total arrivals of merchandise, either immediately entering consumption channels, or entering warehouse storage or processing under Custom's custody.

The Census data in this report on total merchandise trade include trade between the U.S. Virgin Islands and foreign countries for all years. Trade data disaggregated by trading partner or by commodity are not readily available on U.S. Virgin Island trade with foreign countries for periods prior to 1981.

The merchandise trade data in this report on product sectors or classes for the years 1980-84 have been adjusted using the foreign trade classification concordance provided by Census for 1985. These adjustments were made to improve the comparability of those classes for the entire period 1980-85. As a result, the data for individual sectors or classes for 1980-84 may differ slightly from those reported in Census publications.

In this report, "manufactures" trade covers SITC (Standard International Trade Classification) sections 5-9. Other commodity aggregations, such as "agriculture", conform with Census merchandise trade data classification groupings. For additional information on foreign trade data methodology, refer to the ITA publication "Understanding United States Foreign Trade Data", available from the U.S. Government Printing Office (GPO stock number: 003-009-00463-2).

The data on high-tech trade are based on the U.S. Department of Commerce DOC-3 definition. A list of the products covered and basis of definition will be supplied on request. All of these products are manufactures.

In this report the major country groups and the countries included are:

EC-10 (European Community): Belgium, Denmark, France, West Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, and the United Kingdom.

OPEC (Organization of Petroleum Exporting Countries): Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar. Saudi Arabia, the United Arab Emirates, and Venezuela.

Western Hemisphere Developing Countries (Latin America): All countries of North and South America (including the Caribbean island nations) except for Canada, Cuba, and the United States.

East Asian NICs (Newly Industrialized Countries): Hong Kong, Singapore, South Korea, and Taiwan.

CPEs (Centrally Planned Economies): Albania, Bulgaria, Cambodia, China, Cuba, Czechoslovakia, East Germany, Hungary, Laos, Mongolia, North Korea, Poland, Romania, the U.S.S.R., and Vietnam.

Business Services Data

The business services data include those provided to facilitate merchandise trade (mainly international insurance and freight) and other business services such as

tourism, passenger transportation, other insurance, financial services, and fees and royalties. These business services do not include services provided directly by governments. The business services data in this report do not include international income (receipts) from interest payments and dividends, as such transactions do not relate directly to international trade of merchandise or services.

Business services are classified as imports or exports according to the nation that provides them. For example, international transportation services provided by a foreign-owned transport line to bring imported merchandise to the United States are U.S. transportation services imports.

Census Schedules A and E Product Composition

The following products are covered in the two-digit classes described in Chapter 3 of this report.

Section 5—Chemicals and Related Products

51—*Organic Chemicals:* Hydrocarbons, specified cyclic organic chemicals, alcohol mixtures, pesticides, plasticizers, and fatty substances.

52—*Inorganic Chemicals:* Radioactive and associated materials, non-radioactive isotopes, uranium oxide, chemical elements, inorganic acids, ammonia, and inorganic drugs.

53—*Dyeing, Tanning, and Coloring Materials—Natural and Synthetic:* Color toners, synthetic dyes, dyeing and tanning extracts, paints, varnishes, lacquers, enamels, glazes, and related products.

54—*Medicinal and Pharmaceutical Products:* Vitamins, antibiotics, vaccines, glycosides, and other pharmaceutical products.

55—*Essential Oils and Perfume Materials, Toilet, Polishing and Cleansing Preparations:* Oils, perfume, deodorant preparations, cosmetics, soaps, washing agents, and shoe polish.

56—*Fertilizers and Fertilizer Materials, Not Specifically Provided For.*

57—*Explosives and Pyrotechnic Products:* Explosives, blasting caps, fireworks, and signal flares.

58—*Synthetic Resins, and Rubber or Plastic Materials, Including Waste and Scrap:* Cellulosic plastic materials, hardened protein resins, modified natural resins, rubber containing processing chemicals, rubber cements, plastics products, rubber and plastic films, and waste and scrap.

59—*Chemical Materials and Products, Not Specifically Provided For:* Pesticides, gelatin, cornstarch, tall oil, turpentine, waxes, preparations for fire extinguishers, and miscellaneous chemical products.

Section 6—Manufactured Goods Classified Chiefly by Material

61—*Leather, Leather Manufactures, Not Specifically Provided For, and Dressed Fur Skins:* Sheep, horse, lamb, and pig leather; machine belting of leather, and dressed fur skins.

62—*Rubber or Plastic Tires and Tubes:* Pneumatic and non-pneumatic tires for cars, trucks, and buses; tubes for tires.

63—*Cork and Wood Manufactures, Excluding Furniture:* Sheets, slabs, and articles of cork; plywood, wood blocks, and wood manufactures; barrels, and wood for decorative use.

64—*Paper, Paperboard, and Manufactures Thereof:* Newsprint paper, paperboard, paper pulp, stationery, paper sanitary products, and paper bags.

65—*Textile Yarn, Fabrics, Made-Up Articles and Related Products:* Silk, wool, cotton, nylon, and man-made threads and yarn; woven cotton fabrics; woven man-made fabrics; silk, wool woven fabrics; knit fabrics; narrow fabrics; elastic yarns, cordage, and braids; hoses, and linoleum floor coverings.

66—*Nonmetallic Mineral Manufactures, Not Specifically Provided For:* Lime, cement, clay; unworked, sheet, and plate glass; glassware, pottery, and diamonds.

67—*Iron and Steel:* Pig iron; iron or steel ingots, rods, plates, sheets, etc.; iron or steel castings, wires, etc.

68—*Non-ferrous Metals:* Silver, platinum, copper, nickel, lead, zinc, tin, tungsten, and related alloys.

69—*Manufactures Of Metal, Not Specifically Provided For:* Iron and steel structures; metal containers; fencing; tacks, nuts, bolts, etc.; hand tools, cutlery, heating and cooking apparatus, chains, springs, anchors, and household appliances.

Section 7—Machinery and Transport Equipment

71—*Power Generating Machinery, and Parts Thereof, Not Specifically Provided For:* Steam boilers, engines, turbines, and parts thereof; aircraft and marine engines; rocket turbines; electric motors and generators; nuclear reactors.

72—*Machinery Specialized for Particular Industries:* Farming equipment; engineering machinery; leather-working machinery; textile machinery; printing presses; flour and grain mill machinery; other related equipment.

73—*Metalworking Machinery:* Metal-cutting and forming machine tools, ingot molds, casting machines, rolling mills, and various welding and brazing equipment.

74—*General Industrial Machinery and Equipment, Not Specifically Provided For, and Machine Parts, Not Specifically Provided For:* Oil and gas burners for heating, air conditioning machines, pumps, air or gas compressors, fork-lifts, fans, valves, and parts thereof not specifically provided for.

75—*Office Machines and Automatic Data Processing Equipment and Parts, Not Specifically Provided For:* Typewriters, calculators, computers and related peripherals, copiers, and parts thereof not specifically provided for.

76—*Telecommunications and Sound Recording and Reproducing Apparatus and Equipment:* Televisions, radios, phonographs, microphones, loudspeakers, radio transmitters and receivers, and telegraph equipment.

77—*Electrical Machinery, Apparatus and Appliances, Not Specifically Provided For, And Electrical Parts Thereof:* Transformers, printed circuit boards, insulated conductors, x-ray equipment, household refrigerators and dishwashers, shavers, integrated circuits, and other electrical apparatus not specifically provided for.

78—*Road Vehicles:* Automobiles, buses, trucks, motorcycles, trailers, and parts thereof.

79—*Transport Equipment, Not Specifically Provided For:* Trains, airplanes, spacecraft, ships, boats, and parts thereof.

Section 8—Miscellaneous Manufactured Articles

81—*Sanitary, Plumbing, Heating and Lighting Fixtures, Fittings, Lamps and Parts Thereof:* Warm air furnaces, cooking apparatus, sanitary and plumbing fixtures, and light fixtures and fittings.

82—*Furniture and Parts Thereof:* Furniture, including mattresses, bedsprings, pillows, cushions, and parts thereof.

83—*Travel Goods, Handbags, and Other Personal Goods:* Handbags and other personal travel items.

84—*Articles Of Apparel and Clothing Accessories:* Clothing for men, women, and children, both of natural and man-made materials, including headware, gloves, and rainwear.

85—*New Footwear Except Military and Orthopedic Wear.*

86—*Professional, Scientific, and Controlling Instruments and Apparatus Not Specifically Provided For:* Optical instruments; medical instruments not specifically provided for; meters and counters such as tachometers and gas meters; compasses, meteorological and geophysical instruments; and others not specifically provided for.

88—*Photographic Apparatus, Equipment and Supplies and Optical Goods, Not Specifically Provided For, and Watches and Clocks:* Cameras, motion-picture cameras; photographic supplies, chemicals, and film; lenses and prisms; spectacles and frames; watches and clocks.

89—*Miscellaneous Manufactured Articles, Not Specifically Provided For:* Printed matter, baby carriages, children's toys, non-military arms and ammunition, art pieces, jewelry, musical instruments, umbrellas, brooms, and buttons.

Section 9—Commodities and Transactions not Classified Elsewhere

93—*Special Transactions Not Classified According to Kind.*

94—*Live Animals, Not Specifically Provided For, Including Zoo Animals, Dogs, Cats, Insects, and Birds.*

95—*Arms of War And Ammunition, Armored Fighting Vehicles, Military Equipment Not Identified By Kind, and Military Apparel.*

96—*Coins, Other Than Gold, Not Being Legal Tender.*

97—*Non-Monetary Gold, Excluding Gold Ores and Concentrates.*

99—*Low-Valued Shipments.*

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Table 1

Total U.S. Merchandise Trade, 1970-85 1/
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.)
(Millions of dollars)

	Exports	Imports	Balance	Change from Preceding Year Exports (Percent)	Imports (Percent)	Balance
1970.....	43,224	42,429	795	---	---	---
1971.....	44,130	48,342	-4,212	2.1	13.9	-5,007
1972.....	49,758	58,862	-9,104	12.8	21.8	-4,892
1973.....	71,339	73,573	-2,234	43.4	25.0	6,870
1974.....	98,691	110,875	-12,184	38.3	50.7	-9,950
1975.....	108,113	105,880	2,233	9.5	-4.5	14,417
1976.....	115,413	132,498	-17,085	6.8	25.1	-19,318
1977.....	121,294	160,411	-39,117	5.1	21.1	-22,032
1978.....	143,766	186,045	-42,279	18.5	16.0	-3,162
1979.....	182,025	222,228	-40,203	26.6	19.4	2,076
1980.....	220,786	256,984	-36,198	21.3	15.6	4,005
1981 2/..	233,649	273,352	-39,703	5.8	6.4	-3,505
1982.....	212,275	254,885	-42,610	-9.1	-6.8	-2,907
1983.....	200,538	269,878	-69,340	-5.5	5.9	-26,730
1984 3/..	217,888	341,177	-123,289	8.7	26.4	-53,949
1985 3/..	213,146	361,626	-148,480	-2.2	6.0	-25,191

1/ 1970-73 data do not include trade between the U.S. Virgin Islands and foreign countries.
2/ Exports to the USSR are corrected for a $90 million error in Census data.
3/ Unrevised data are used to ensure consistency between all tables would be consistent.

Source: U.S. Department of Commerce, Bureau of the Census.

Table 2

Total U.S. Merchandise Trade, by Region, 1980-85
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.)
(Millions of dollars)

EXPORTS	1980	1981	1982	1983	1984	1985	1984-85 Change $	1984-85 Change %
World	220,786	233,649	212,275	200,538	217,888	213,146	-4,742	-2.2
Developed Countries	131,010	136,007	122,676	122,974	135,884	134,018	-1,866	-1.4
Canada	35,395	39,565	33,720	38,244	46,525	47,252	727	1.6
Japan	20,790	21,823	20,966	21,894	23,575	22,631	-944	-4.0
European Community (EC10)	54,600	52,363	47,933	44,311	46,976	45,776	-1,200	-2.6
Other Developed	20,225	22,256	20,057	18,525	18,808	18,359	-449	-2.4
Developing Countries	80,962	88,804	82,540	72,189	74,420	71,672	-2,748	-3.7
Western Hemisphere	38,714	42,100	33,588	25,724	29,681	31,013	1,332	4.5
Mexico	15,144	17,788	11,817	9,082	11,992	13,635	1,643	13.7
Brazil	4,344	3,798	3,423	2,557	2,639	3,140	501	19.0
Other W. Hemisphere	19,226	20,514	18,348	14,085	15,050	14,238	-812	-5.4
East Asian NICs	14,741	15,059	15,563	16,914	17,723	16,918	-805	-4.5
Other Developing	27,507	31,645	33,389	29,551	27,016	23,741	-3,275	-12.1
Centrally Planned Economies	7,643	7,872	6,558	5,088	7,216	7,092	-124	-1.7
China	3,755	3,603	2,912	2,173	3,004	3,856	852	28.4
U.S.S.R.	1,513	2,340	2,593	2,003	3,284	2,423	-861	-26.2
Eastern Europe	2,347	1,906	1,018	888	904	792	-112	-12.4
Not Classed by Region 1/	1116	976	505	289	369	364	-5	-1.4
Addendum: OPEC	17,761	21,530	22,864	16,905	14,387	12,478	-1,909	-13.3
Special Category	3,274	4,188	6,531	5,849	4,975	5,446	471	9.5
IMPORTS								
World	256,984	273,352	254,885	269,878	341,177	361,626	20,449	6.0
Developed Countries	130,967	147,190	146,997	157,895	208,556	232,229	23,673	11.4
Canada	41,995	46,827	46,792	52,546	66,911	69,427	2,516	3.8
Japan	32,961	39,904	39,931	43,559	60,371	72,380	12,009	19.9
European Community (EC10)	38,329	43,653	44,466	45,879	60,266	68,246	7,980	13.2
Other Developed	17,682	16,806	15,808	15,911	21,008	22,176	1,168	5.6
Developing Countries	119,229	122,392	104,212	108,028	126,880	123,055	-3,825	-3.0
Western Hemisphere	38,697	40,786	39,580	43,560	50,044	49,087	957	1.9
Mexico	12,774	14,013	15,770	17,019	18,267	19,392	1,125	6.2
Brazil	4,000	4,852	4,643	5,381	8,273	8,147	-126	-1.5
Other W. Hemisphere	21,923	21,921	19,167	21,160	23,504	21,548	-1,956	-8.3
East Asian NICs	18,805	22,057	23,767	29,561	39,135	41,880	2,745	7.0
Other Developing	61,727	59,549	40,865	34,907	37,701	32,088	-5,613	-14.9
Centrally Planned Economies	2,729	3,767	3,671	3,955	5,738	6,342	604	10.5
China	1,161	2,062	2,502	2,477	3,381	4,224	843	24.9
U.S.S.R.	485	377	247	375	600	443	-157	-26.2
Eastern Europe	1,079	1,321	915	1,100	1,752	1,671	-81	4.6
Not Classed by Region	4	3	2	1	1	0	-1	--
Addendum: OPEC	54,781	51,793	32,732	26,494	28,062	24,062	-4,000	-14.3

Table 2 (continued)

Total U.S. Merchandise Trade, by Region, 1980-85
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.)
(Millions of dollars)

BALANCE	1980	1981	1982	1983	1984	1985	1984-85 Change
World	-36,198	-39,703	-42,610	-69,340	-123,289	-148,480	-25,191
Developed Countries	43	-11,183	-24,321	-34,921	-72,672	-98,211	-25,539
Canada	-6,600	-7,262	-13,072	-14,302	-20,386	-22,175	-1,789
Japan	-12,171	-18,081	-18,965	-21,665	-36,796	-49,749	-12,953
European Community (EC10)	16,271	8,710	3,467	-1,568	-13,290	-22,470	-9,180
Other Developed	2,543	5,450	4,249	2,614	-2,200	-3,817	-1,617
Developing Countries	-38,267	-33,588	-21,672	-35,839	-52,460	-51,383	1,077
Western Hemisphere	17	1,314	-5,992	-17,836	-20,363	-18,074	2,289
Mexico	2,370	3,775	-3,953	-7,937	-6,275	-5,757	518
Brazil	344	-1,054	-1,220	-2,824	-5,634	-5,007	627
Other W. Hemisphere	-2,697	-1,407	-819	-7,075	-8,454	-7,310	1,144
East Asian NICs	-4,064	-6,998	-8,204	-12,647	-21,412	-24,962	-3,550
Other Developing	-34,220	-27,904	-7,476	-5,356	-10,685	-8,347	2,338
Centrally Planned Economies	4,914	4,105	2,887	1,133	1,478	750	-728
China	2,594	1,541	410	-304	-377	-368	9
U.S.S.R.	1,028	1,963	2,346	1,628	2,684	1,980	-704
Eastern Europe	1,268	585	103	-212	-848	-879	-31
Addendum: OPEC	-37,020	-30,263	-9,868	-9,589	-13,675	-11,584	2,091

Note: 1980 regional data do not include trade between the U.S. Virgin Islands and foreign countries. 1981 exports to the USSR are corrected for a $90 million error in Census data.

1/ Includes international organizations.

Source: U.S. Department of Commerce, Bureau of the Census.

Table 3

U.S Trade with Individual Countries, 1983-85
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.
(Millions of dollars)

	U.S. EXPORTS			U.S. IMPORTS			U.S. BALANCE		
	1983	1984	1985	1983	1984	1985	1983	1984	1985
WORLD	200,538	217,888	213,146	269,878	341,177	361,626	-69,340	-123,289	-148,480
SPECIAL CATEGORY	5,849	4,975	5,446	NA	NA	NA	NA	NA	NA
DEVELOPED COUNTRIES	122,974	135,884	134,018	157,895	208,559	232,234	-34,921	-72,674	-98,216
Canada	38,244	46,524	47,251	52,546	66,911	69,427	-14,302	-20,387	-22,176
Japan	21,894	23,575	22,631	43,559	60,371	72,380	-21,665	-36,796	-49,749
Australia	3,954	4,793	5,441	2,422	2,899	3,069	1,532	1,894	2,372
New Zealand	620	708	727	828	880	969	-208	-172	-241
South Africa	2,129	2,265	1,205	2,099	2,577	2,180	31	-312	-975
Western Europe	56,132	58,019	56,763	56,442	74,921	84,209	-309	-16,901	-27,446
European Community	44,311	46,976	45,776	45,879	60,266	68,246	-1,568	-13,291	-22,470
Belgium/Luxembourg	5,049	5,301	4,918	2,510	3,287	3,567	2,539	2,014	1,351
Denmark	649	605	706	1,126	1,518	1,796	-477	-913	-1,091
France	5,961	6,037	6,096	6,308	8,516	9,959	-346	-2,480	-3,864
Germany, West	8,737	9,084	9,050	13,229	17,810	21,232	-4,492	-8,726	-12,182
Greece	503	456	498	256	383	427	247	73	70
Ireland	1,115	1,354	1,342	582	874	942	533	480	400
Italy	3,908	4,375	4,625	5,819	8,504	10,381	-1,912	-4,129	-5,756
Netherlands	7,767	7,554	7,269	3,149	4,329	4,368	4,619	3,225	2,901
United Kingdom	10,621	12,210	11,273	12,900	15,044	15,573	-2,279	-2,835	-4,300
Non-EC Europe	11,822	11,044	10,987	10,563	14,654	15,963	1,259	-3,610	-4,976
Austria	371	375	441	468	760	889	-97	-385	-448
Cyprus	54	74	45	16	30	16	38	43	29
Finland	413	350	438	544	857	976	-131	-507	-538
Gibraltar	28	4	13	2	3	1	25	1	12
Iceland	53	51	38	232	219	263	-179	-168	-225
Malta	65	23	26	11	19	35	54	5	-9
Norway	813	859	666	1,432	2,004	1,249	-619	-1,145	-583
Portugal	1,214	961	695	308	519	598	906	442	97
Spain	2,915	2,561	2,524	1,689	2,627	2,773	1,226	-66	-249
Sweden	1,581	1,542	1,925	2,549	3,426	4,339	-967	-1,884	-2,414
Switzerland	2,960	2,562	2,288	2,552	3,199	3,579	409	-637	-1,291
Turkey	783	1,249	1,295	337	464	645	447	785	649
Yugoslavia	572	432	595	424	527	601	148	-95	-6
DEVELOPING COUNTRIES 1/	72,186	74,418	71,672	108,027	126,879	123,050	-35,841	-52,461	-51,378
Western Hemisphere 2/	25,725	29,683	31,019	43,581	50,063	49,096	-17,856	-20,380	-18,077
Mexico	9,082	11,992	13,635	17,019	18,267	19,392	-7,937	-6,275	-5,757
South America	10,520	11,050	11,022	17,093	22,461	22,415	-6,573	-11,411	-11,393
Argentina	965	900	721	939	1,041	1,167	26	-141	-446
Bolivia	102	106	120	172	159	101	-70	-54	18
Brazil	2,557	2,640	3,140	5,381	8,273	8,147	-2,824	-5,633	-5,007
Chile	729	805	682	1,053	871	857	-324	-66	-175
Colombia	1,514	1,450	1,468	1,058	1,253	1,456	456	197	11
Ecuador	597	655	591	1,520	1,803	1,976	-922	-1,149	-1,385
Falkland Islands	0	0	0	0	0	0	0	0	0
French Guiana	70	72	114	26	20	13	45	52	100
Guyana	36	51	43	76	88	54	-40	-37	-10
Paraguay	36	64	99	34	44	25	2	20	73
Peru	900	751	496	1,204	1,402	1,152	-304	-650	-656
Suriname	117	100	86	69	112	64	48	-12	21
Uruguay	86	80	64	390	576	571	-304	-496	-507
Venezuela	2,811	3,377	3,399	5,173	6,820	6,830	-2,361	-3,443	-3,431

Table 3 (continued)

U.S Trade with Individual Countries, 1983-85
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.; Millions of dollars)

	U.S. EXPORTS			U.S. IMPORTS			U.S. BALANCE		
	1983	1984	1985	1983	1984	1985	1983	1984	1985
Caribbean Basin	6,052	6,528	6,199	9,557	9,491	7,388	-3,505	-2,963	-1,190
Bahamas	452	555	786	1,746	1,218	652	-1,294	-663	134
Barbados	195	241	173	205	256	205	-10	-15	-33
Belize	36	53	56	29	48	49	7	5	7
Cayman Islands	67	78	75	10	6	11	57	71	63
Costa Rica	382	423	422	453	544	570	-71	-121	-148
Dominican Republic	632	646	742	855	1,067	1,031	-223	-422	-289
El Salvador	365	426	445	362	406	413	3	20	32
Guatemala	316	377	405	404	479	448	-88	-103	-43
Guyana	36	51	43	76	88	54	-40	-37	-10
Haiti	366	419	396	351	394	406	14	25	-10
Honduras	299	322	308	435	450	432	-136	-128	-124
Jamaica	452	495	404	307	415	292	145	80	112
Leeward & Windward Islands	166	209	199	40	47	99	125	162	100
Netherlands Antilles	553	648	427	2,367	2,112	836	-1,814	-1,464	-409
Nicaragua	132	112	42	109	69	50	23	43	-8
Panama	748	757	675	378	365	467	370	392	208
Suriname	117	100	86	69	112	64	48	-12	21
Trinidad & Tobago	728	601	504	1,357	1,411	1,304	-629	-810	-800
Turks & Caicos Islands	12	16	12	4	4	4	8	11	8
Other Western Hemisphere	224	264	292	56	43	19	168	221	273
Bermuda	185	225	258	11	8	7	174	217	251
French West Indies	38	38	28	24	16	4	14	22	24
Greenland	1	2	6	16	13	3	-15	-11	3
St. Pierre & Miquelon	0	0	0	5	6	5	-5	-6	-5
East Asian NICs	16,914	17,723	16,918	29,561	39,135	41,880	-12,647	-21,412	-24,962
Hong Kong	2,564	3,062	2,786	6,825	8,899	8,994	-4,261	-5,836	-6,208
Korea, South	5,925	5,983	5,956	7,657	10,027	10,713	-1,732	-4,045	-4,756
Singapore	3,759	3,675	3,476	2,969	4,121	4,412	790	-446	-937
Taiwan	4,667	5,003	4,700	12,110	16,088	17,761	-7,443	-11,085	-13,061
Other Asia 3/	9,013	9,074	7,612	14,187	16,601	14,980	-5,175	-7,527	-7,368
Afghanistan	5	7	3	9	14	7	-4	-7	-4
Bangladesh	190	303	219	110	159	227	80	144	-8
Brunei	58	34	51	20	11	2	38	24	48
Burma	16	16	10	12	15	15	4	1	-5
India	1,828	1,570	1,642	2,334	2,737	2,478	-506	-1,167	-837
Indonesia	1,466	1,216	795	5,657	5,867	4,933	-4,191	-4,651	-4,138
Macao	1	2	1	246	339	370	-246	-337	-369
Malaysia	1,684	1,856	1,539	2,205	2,825	2,399	-521	-969	-860
Nepal	8	4	7	6	8	52	1	-4	-45
Pakistan	812	1,092	1,042	183	268	299	629	825	743
Philippines	1,807	1,766	1,379	2,159	2,622	2,334	-352	-856	-955
South Asia NEC	1	3	2	6	9	6	-5	-6	-4
Sri Lanka	75	92	73	206	302	313	-131	-210	-240
Thailand	1,063	1,113	849	1,035	1,426	1,543	28	-313	-693
Middle East	13,796	11,133	9,709	7,492	8,555	6,600	6,304	2,578	3,110
Bahrain	136	145	107	25	56	90	111	89	17
Gaza Strip	3	0	0	0	0	0	3	0	0
Iran	190	162	74	1,167	730	763	-977	-568	-689

Table 3 (continued)

U.S Trade with Individual Countries, 1983-85
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.; Millions of dollars)

	U.S. EXPORTS			U.S. IMPORTS			U.S. BALANCE		
	1983	1984	1985	1983	1984	1985	1983	1984	1985
Middle East (continued)									
Iraq	512	664	427	61	129	491	451	535	-64
Israel	2,017	2,194	2,580	1,300	1,809	2,201	717	385	379
Jordan	436	299	377	5	4	15	431	294	363
Kuwait	741	635	551	139	280	198	602	355	353
Lebanon	484	286	141	18	8	20	467	278	121
Oman	175	168	160	374	170	51	-199	-2	110
Qatar	109	84	64	11	52	18	97	32	46
Saudi Arabia	7,903	5,564	4,474	3,840	4,009	2,027	4,063	1,556	2,447
Syria	112	104	106	9	2	3	103	102	103
United Arab Emirates	864	695	596	542	1,278	721	322	-583	-125
Yemen, North	107	69	42	0	8	1	107	60	41
Yemen, South	7	62	9	1	18	1	6	45	8
Africa	6,486	6,561	6,183	13,102	12,419	10,363	-6,616	-5,857	-4,180
Algeria	594	520	430	3,815	3,771	2,426	-3,221	-3,250	-1,996
Angola	91	103	137	948	1,053	1,094	-857	-950	-957
Benin	12	12	67	29	0	0	-16	12	67
Botswana	4	19	16	44	58	30	-40	40	-14
Br. Indian Ocean Territory	0	0	0	1	0	2	-1	0	-2
Burundi	4	9	6	3	2	1	1	7	5
Cameroon	93	66	69	536	751	338	-442	685	-270
Central African Republic	1	1	1	4	3	1	-3	-2	1
Chad	13	16	25	71	0	0	-58	16	25
Comoros	0	1	2	4	2	7	-4	-2	5
Congo	16	12	19	859	1,054	646	-843	-1,042	626
Djibouti	6	8	5	0	0	0	6	8	4
Egypt	2,813	2,704	2,323	325	182	84	2,488	2,522	2,239
Equatorial Guinea	1	0	0	0	1	0	1	-1	0
Ethiopia	43	174	203	94	89	46	-51	85	157
Fr. Indian Ocean Areas	2	1	1	5	6	2	-3	-5	-1
Gabon	63	36	91	685	707	523	-622	-671	-432
Gambia	6	14	11	0	1	0	6	14	11
Ghana	119	46	53	125	51	95	-7	-5	-42
Guinea	22	33	51	139	138	140	-116	-105	-89
Ivory Coast	61	64	70	371	499	558	-310	-434	-489
Kenya	69	74	97	70	69	100	-1	5	-3
Lesotho	7	12	7	1	1	1	6	11	6
Liberia	110	97	73	107	118	104	2	-21	-31
Libya	191	200	311	1	10	47	190	190	264
Madagascar	22	39	33	74	74	55	-52	-35	-22
Malawi	3	3	4	15	33	29	-12	-30	25
Mali	10	15	30	1	1	6	9	14	24
Mauritania	27	26	26	1	1	0	27	25	26
Mauritius	8	9	11	34	53	78	-25	-45	66
Morocco	440	526	279	34	39	44	405	487	235
Mozambique	20	23	56	31	26	17	-11	-4	38
Namibia	3	4	19	1	3	13	2	1	6
Niger	2	2	13	4	1	10	-2	1	3
Nigeria	864	577	676	3,883	2,606	3,108	-3,019	2,029	-2,432
Rwanda	6	9	6	30	18	7	-24	-9	-1
Saint Helena	0	0	0	0	5	1	0	-5	0
Senegal	38	95	61	2	3	5	36	92	55
Seychelles	1	1	1	3	0	10	-2	0	-9
Sierra Leone	11	19	13	23	41	18	-12	-22	5
Somalia	46	76	57	0	1	2	46	75	55
Sudan	157	136	243	20	22	9	136	114	234
Swaziland	4	1	1	14	24	16	-10	-23	-15
Tanzania	32	44	46	16	13	11	16	31	35
Togo	17	13	17	21	37	12	-4	-24	4
Tunisia	216	434	256	34	31	14	182	402	243
Uganda	4	3	5	111	98	119	-107	-94	-114
Upper Volta	14	21	27	0	0	1	14	21	26
Western Africa NEC	22	30	24	1	1	3	21	29	21
Western Sahara	0	0	0	0	0	0	0	0	0
Zaire	83	82	105	378	518	415	-295	-436	-310
Zambia	34	91	59	54	129	59	-19	38	0
Zimbabwe	61	64	46	80	75	54	-19	12	9

Table 3 (continued)

U.S Trade with Individual Countries, 1983-85
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.; Millions of dollars)

	U.S. EXPORTS			U.S. IMPORTS			U.S. BALANCE		
	1983	1984	1985	1983	1984	1985	1983	1984	1985
Other Developing Countries	252	244	231	104	107	132	148	137	99
French Pacific Islands	71	78	114	18	19	24	52	59	90
Papua New Guinea	84	53	41	27	29	36	56	24	4
Southern Pacific Islands	4	6	5	6	1	16	-2	6	-12
Trust Territory	69	85	62	13	25	13	56	60	49
Western Samoa	5	4	2	8	7	25	-3	-3	-23
Other Pacific Islands NEC	20	18	9	31	26	19	-11	-9	-10
CENTRALLY PLANNED ECONOMIES 4/	5,088	7,217	7,092	3,955	5,738	6,342	1,133	1,479	750
China	2,173	3,004	3,856	2,477	3,381	4,224	-304	-377	-369
USSR	2,003	3,284	2,423	375	600	443	1,628	2,684	1,980
Eastern Europe	888	904	792	1,100	1,752	1,671	-212	-848	-879
Albania	4	9	12	4	3	4	0	7	8
Bulgaria	66	44	104	30	31	39	36	13	65
Czechoslovakia	59	58	63	68	96	85	-9	-38	-22
Germany, East	139	137	73	64	167	102	75	-30	-30
Hungary	110	88	94	172	242	241	62	-154	147
Poland	324	318	238	209	244	249	115	74	-10
Romania	186	249	208	553	969	951	-367	-720	-743
Other CPEs	24	25	22	4	5	5	20	20	17
Cambodia	2	1	0	0	0	0	2	1	0
Cuba	1	1	1	0	0	0	1	1	1
Korea, North	0	0	0	0	0	0	0	0	0
Laos	0	0	0	3	2	0	-3	-2	0
Mongolia	0	0	0	1	2	4	-1	-2	-4
Vietnam	21	22	20	0	0	0	21	22	20
NOT ACCOUNTED FOR	289	369	364	1	1	0	288	368	364

Note: Because of rounding, aggregations in this table may differ slightly from values in Census sources. Adjustments to the export and import values for Spain, Portugal, and USSR (and the associated regional aggregations) have been made for 1983 to agree with the 1984 Census definitions of these countries.

1/ Excluding Cambodia, Cuba, and Laos.
2/ Excluding Cuba.
3/ Excluding Cambodia and Laos.
4/ Including Cambodia, Cuba, and Laos.

Source: U.S. Department of Commerce, Bureau of the Census.

Table 4

U.S. Bilateral Trade Surpluses and Deficits, 1983-85
By Top 35 Countries in 1985
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.)
(Millions of dollars)

	TRADE SURPLUS 1/				TRADE DEFICIT 2/		
	1983	1984	1985		1983	1984	1985
Netherlands	4,619	3,225	2,901	Japan	21,665	36,796	49,749
Saudi Arabia	4,063	1,556	2,447	Canada	14,302	20,387	22,176
Australia	1,532	1,894	2,372	Taiwan	7,443	11,085	13,061
Egypt	2,488	2,522	2,239	Germany, West	4,492	8,726	12,182
USSR	1,628	2,684	1,980	Hong Kong	4,261	5,836	6,208
Belgium/Luxembourg	2,539	2,014	1,351	Mexico	7,937	6,275	5,757
Pakistan	629	825	743	Italy	1,912	4,129	5,756
Turkey	447	785	649	Brazil	2,824	5,633	5,007
Ireland	533	480	400	Korea, South	1,732	4,045	4,756
Israel	717	385	379	United Kingdom	2,279	2,835	4,300
Jordan	431	294	363	Indonesia	4,191	4,651	4,138
Kuwait	602	355	353	France	346	2,480	3,864
Libya	190	190	264	Venezuela	2,361	3,443	3,431
Bermuda	174	217	251	Nigeria	3,019	2,029	2,432
Tunisia	182	402	243	Sweden	967	1,884	2,414
Morocco	405	487	235	Algeria	3,221	3,250	1,996
Sudan	136	114	234	Ecuador	922	1,149	1,385
Panama	370	392	208	Switzerland	-409	637	1,291
Ethiopia	-51	85	157	Denmark	477	913	1,091
Bahamas	-1,294	-663	134	South Africa	-31	312	975
Lebanon	467	278	121	Angola	857	950	957
Jamaica	145	80	112	Philippines	352	856	955
Oman	-199	-2	110	Singapore	-790	446	937
Syria	103	102	103	Malaysia	521	969	860
French Guiana	45	52	100	India	506	1,167	837
Leeward & Windward Islands	125	162	100	Trinidad & Tobago	629	810	800
Portugal	906	442	97	Romania	367	720	743
French Pacific Islands	52	59	90	Thailand	-28	313	693
Paraguay	2	20	73	Iran	977	568	689
Greece	247	73	70	Peru	304	650	656
Benin	-16	12	67	Congo	843	1,042	626
Bulgaria	36	13	65	Norway	619	1,145	583
Cayman Islands	57	71	63	Finland	131	507	538
Senegal	36	92	55	Uruguay	304	496	507
Somalia	46	75	55	Ivory Coast	310	434	489

1/ Negative sign indicates a trade deficit.
2/ Negative sign indicates a trade surplus.

Source: U.S. Department of Commerce, Bureau of the Census.

Table 5

U.S. Merchandise Trade by Major Product Groups, 1975-85
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.)
(Millions of dollars)

	Total	Agricultural 2/	Mineral Fuels	Manufactures 3/	Other
			EXPORTS		
1975 1/.....	108,113	22,097	4,481	75,350	6,185
1976 1/.....	115,413	23,281	4,228	81,302	6,602
1977 1/.....	121,294	24,234	4,204	85,917	6,939
1978 1/.....	143,766	29,777	3,946	101,474	8,569
1979 1/.....	182,025	35,213	5,677	128,170	12,965
1980 1/.....	220,786	41,757	8,154	155,808	15,067
1981 4/.....	233,649	43,814	10,317	166,849	12,669
1982.....	212,275	37,010	12,777	151,264	11,224
1983.....	200,538	36,454	9,639	143,495	10,950
1984.....	217,888	38,231	9,481	158,449	11,727
1985.....	213,146	29,632	10,102	161,974	11,438
			IMPORTS		
1975 1/.....	105,880	10,333	28,284	57,691	9,572
1976 1/.....	132,498	12,143	36,362	72,216	11,777
1977 1/.....	160,411	14,555	47,293	85,224	13,339
1978 1/.....	186,045	16,145	44,722	110,889	14,289
1979 1/.....	222,228	18,249	63,800	123,755	16,424
1980 1/.....	256,984	18,878	82,364	138,780	16,962
1981 4/.....	273,352	18,807	84,441	156,351	13,753
1982.....	254,885	17,286	67,657	158,114	11,828
1983.....	269,878	18,102	60,215	178,475	13,086
1984.....	341,177	21,582	63,297	241,790	14,508
1985.....	361,626	22,019	55,843	269,364	14,400
			BALANCE		
1975 1/.....	2,233	11,764	-23,803	17,659	-3,387
1976 1/.....	-17,085	11,138	-32,134	9,086	-5,175
1977 1/.....	-39,117	9,679	-43,089	693	-6,400
1978 1/.....	-42,279	13,632	-40,776	-9,415	-5,720
1979 1/.....	-40,203	16,964	-58,123	4,415	-3,459
1980 1/.....	-36,198	22,879	-74,210	17,028	-1,895
1981 4/.....	-39,703	25,007	-74,124	10,498	-1,084
1982.....	-42,610	19,724	-54,880	-6,850	-604
1983.....	-69,340	18,352	-50,576	-34,980	-2,136
1984.....	-123,289	16,649	-53,816	-83,341	-2,781
1985.....	-148,480	7,613	-45,741	-107,390	-2,962

1/ Commodity data for 1975-80 exclude trade between the U.S. Virgin Islands and foreign countries.
2/ Includes some manufactured products.
3/ Manufactures include SITC 5-9.
4/ Total and manufactures exports for 1981 corrected for $90 million error in Census data.

Source: U.S. Department of Commerce, Bureau of the Census.

Table 6

U.S. Manufactures Trade, by Region, 1980-85
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.)
(Millions of dollars)

EXPORTS	1980	1981	1982	1983	1984	1985	1984-85 Change $	1984-85 Change %
World	155,808	166,849	151,264	143,495	158,449	161,974	3,525	2.2
Developed Countries	92,556	97,324	85,955	89,279	102,215	104,857	2,642	2.6
Canada	29,590	33,738	28,517	33,075	40,856	42,443	1,587	3.9
Japan	8,960	10,104	10,009	10,837	12,126	12,363	237	2.0
European Community (EC10)	38,650	36,901	32,981	31,881	35,477	35,539	62	0.2
Other Developed	15,356	16,581	14,448	13,486	13,756	14,512	756	5.5
Developing Countries	61,221	67,542	63,323	52,110	53,613	52,983	-630	-1.2
Western Hemisphere	30,200	33,531	26,046	18,295	21,690	23,585	1,895	8.7
Mexico	11,668	14,409	9,180	6,486	9,079	10,839	1,760	19.4
Brazil	3,300	2,816	2,539	1,775	1,763	2,217	454	25.8
Other W. Hemisphere	15,232	16,306	14,327	10,034	10,848	10,529	-319	-2.9
East Asian NICs	9,948	9,795	10,545	11,246	12,060	11,682	-378	-3.1
Other Developing	21,073	24,216	26,732	22,569	19,863	17,716	-2,147	-10.8
Centrally Planned Economies	2,031	1,983	1,986	2,106	2,621	4,008	1,387	52.9
China	1,229	1,141	1,075	1,331	1,956	3,181	1,225	62.6
U.S.S.R.	427	561	603	498	404	477	73	18.1
Eastern Europe	373	269	275	255	238	328	90	37.8
Not Classed by Region 1/	0	0	0	0	0	126	126	--
Addendum: OPEC	14,431	17,499	19,498	13,468	10,727	9,612	-1,115	-10.4
Special Category	3,274	4,188	6,531	5,849	4,975	5,446	471	9.5
IMPORTS								
World	138,780	156,351	158,114	178,475	241,790	269,364	27,574	11.4
Developed Countries	103,474	114,900	115,202	125,749	171,489	195,490	24,001	14.0
Canada	27,741	31,580	32,082	36,311	48,796	50,632	1,836	3.8
Japan	32,523	39,475	39,501	43,046	59,713	71,627	11,914	20.0
European Community (EC10)	32,268	33,495	33,647	35,678	48,432	57,259	8,827	18.2
Other Developed	10,942	10,350	9,972	10,714	14,548	15,972	1,424	9.8
Developing Countries	33,351	39,047	40,511	50,124	66,528	69,775	3,247	4.9
Western Hemisphere	8,781	10,544	10,434	13,351	17,686	18,414	728	4.1
Mexico	4,321	5,159	5,245	6,281	8,175	9,081	906	11.1
Brazil	1,467	1,981	1,976	2,731	4,531	4,659	128	2.8
Other W. Hemisphere	2,993	3,404	3,213	4,339	4,980	4,674	(306)	-6.1
East Asian NICs	18,143	21,303	22,981	28,713	38,058	40,487	2,429	6.4
Other Developing	6,427	7,200	7,096	8,060	10,784	10,874	90	0.8
Centrally Planned Economies	1,951	2,401	2,399	2,602	3,773	4,094	321	8.5
China	792	1,262	1,570	1,759	2,425	2,838	413	17.0
U.S.S.R.	439	233	210	264	353	295	(58)	-16.4
Eastern Europe	720	905	617	578	993	960	(33)	-3.3
Not Classed by Region	4	3	2	0	0	5	--	--
Addendum: OPEC	504	645	589	1,052	1,405	1,435	30	2.1

Table 6 (continued)

U.S. Manufactures Trade, by Region, 1980-85
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.)
(Millions of dollars)

BALANCE	1980	1981	1982	1983	1984	1985	1984-85 Change
World	17,028	10,498	-6,850	-34,980	-83,341	-107,390	-24,049
Developed Countries	-10,918	-17,576	-29,247	-36,470	-69,274	-90,633	-21,359
Canada	1,849	2,158	-3,565	-3,236	-7,940	-8,189	-249
Japan	-23,563	-29,371	-29,492	-32,209	-47,587	-59,264	-11,677
European Community (EC10)	6,382	3,406	-666	-3,797	-12,955	-21,720	-8,765
Other Developed	4,414	6,231	4,476	2,772	-792	-1,460	-668
Developing Countries	27,870	28,495	22,812	1,986	-12,915	-16,792	-3,877
Western Hemisphere	21,419	22,987	15,612	4,944	4,004	5,171	1,167
Mexico	7,347	9,250	3,935	205	904	1,758	854
Brazil	1,833	835	563	-956	-2,768	-2,442	326
Other W. Hemisphere	12,239	12,902	11,114	5,695	5,868	5,855	-13
East Asian NICs	-8,195	-11,508	-12,436	-17,467	-25,998	-28,805	-2,807
Other Developing	14,646	17,016	19,636	14,509	9,079	6,842	-2,237
Centrally Planned Economies	80	-418	-413	-496	-1,152	-86	1,066
China	437	-121	-495	-428	-469	343	812
U.S.S.R.	-12	328	393	234	51	182	131
Eastern Europe	-347	-636	-342	-323	-755	-632	123
Addendum: OPEC	13,927	16,854	18,909	12,416	9,322	8,177	-1,145

Note: 1980 data do not include trade between the U.S. Virgin Islands and foreign countries.
1981 exports to the USSR are corrected for a $90 million error in Census data.
Manufactures include SITC 5-9.

1/ Includes international organizations.

Source: U.S. Department of Commerce, Bureau of the Census.

Table 7

U.S. Manufactures 1/ Trade with Individual Countries, 1983-85
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.; Millions of dollars)

	U.S. EXPORTS			U.S. IMPORTS			U.S. BALANCE		
	1983	1984	1985	1983	1984	1985	1983	1984	1985
WORLD	143,495	158,449	161,974	178,475	241,790	269,364	-34,980	-83,340	-107,390
SPECIAL CATEGORY	5,849	4,975	5,446	NA	NA	NA	NA	NA	NA
DEVELOPED COUNTRIES	89,279	102,215	104,857	125,749	171,489	195,496	-36,470	-69,274	-90,639
Canada	33,075	40,856	42,443	36,311	48,796	50,632	-3,236	-7,941	-8,189
Japan	10,837	12,126	12,363	43,046	59,713	71,628	-32,209	-47,588	-59,265
Australia	3,583	4,391	5,067	656	733	806	2,927	3,658	4,261
New Zealand	533	619	654	197	249	266	336	370	388
South Africa	1,757	1,639	1,011	1,786	2,199	1,760	-29	-560	-749
Western Europe	39,494	42,585	43,319	43,753	59,798	70,404	-4,259	-17,213	-27,085
European Community	31,881	35,477	35,539	35,678	48,432	57,261	-3,797	-12,955	-21,722
Belgium/Luxembourg	3,278	3,536	3,466	2,165	2,905	3,249	1,113	631	217
Denmark	397	435	488	624	884	1,061	-227	-449	-573
France	4,912	4,992	5,188	5,370	7,380	8,628	-458	-2,388	-3,440
Germany, West	6,492	7,325	7,466	12,552	17,025	20,338	-6,060	-9,699	-12,872
Greece	278	308	310	95	175	209	183	133	101
Ireland	991	1,210	1,177	431	699	757	560	511	420
Italy	2,309	2,705	3,049	4,973	7,285	8,866	-2,664	-4,580	-5,817
Netherlands	4,165	4,303	4,321	1,717	2,443	2,906	2,448	1,860	1,415
United Kingdom	9,058	10,664	10,074	7,752	9,637	11,247	1,307	1,027	-1,173
Non-EC Europe	7,613	7,108	7,780	8,075	11,366	13,143	-462	-4,258	-5,363
Austria	312	329	398	423	701	829	-111	-372	-431
Cyprus	27	38	20	13	13	6	14	25	14
Finland	321	278	308	461	699	845	-139	-421	-537
Gibraltar	11	2	1	2	3	1	9	-1	0
Iceland	36	32	26	16	24	35	20	8	-9
Malta	61	16	17	11	19	28	50	-3	-11
Norway	563	635	540	388	577	575	175	58	-35
Portugal	519	234	204	225	417	501	294	-183	-297
Spain	1,201	1,049	1,128	1,294	2,023	1,951	-93	-974	-823
Sweden	1,264	1,288	1,672	2,387	3,224	4,143	-1,123	-1,935	-2,471
Switzerland	2,480	2,232	2,053	2,448	3,082	3,460	32	-849	-1,407
Turkey	592	781	1,018	80	145	238	512	636	780
Yugoslavia	227	193	396	329	440	531	-102	-247	-135
DEVELOPING COUNTRIES 2/	52,110	53,613	52,983	50,124	66,528	69,775	1,986	-12,915	-16,791
Western Hemisphere 3/	18,295	21,690	23,585	13,351	17,686	18,417	4,944	4,004	5,168
Mexico	6,486	9,079	10,839	6,281	8,175	9,081	205	904	1,758
South America	7,554	8,003	8,390	5,424	7,498	7,212	2,130	505	1,178
Argentina	864	793	652	432	452	467	431	341	185
Bolivia	51	80	88	104	121	80	-53	-41	8
Brazil	1,775	1,763	2,217	2,731	4,531	4,659	-956	-2,768	-2,443
Chile	477	570	542	691	489	424	-214	81	118
Colombia	1,211	1,170	1,112	240	280	284	971	890	828
Ecuador	347	423	447	11	16	18	336	407	429
Falkland Islands	0	0	0	0	0	0	0	0	0
French Guiana	69	72	113	0	2	2	68	70	111
Guyana	31	45	39	10	9	10	21	36	29
Paraguay	31	55	90	6	16	8	25	39	82
Peru	525	511	388	425	503	326	100	8	62
Suriname	8	73	66	4	12	6	83	61	60
Uruguay	77	67	58	356	531	535	-279	-464	-477
Venezuela	2,010	2,381	2,576	412	536	392	1,598	1,845	2,184

Table 7 (continued)

U.S. Manufactures 1/ Trade with Individual Countries, 1983-85
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.; Millions of dollars)

	U.S. EXPORTS			U.S. IMPORTS			U.S. BALANCE		
	1983	1984	1985	1983	1984	1985	1983	1984	1985
Caribbean Basin	4,211	4,523	4,241	1,632	2,006	2,130	2,579	2,517	2,112
Bahamas	315	357	427	95	100	120	220	257	307
Barbados	159	204	140	194	247	192	-35	-43	-52
Belize	28	43	35	7	18	28	21	25	7
Cayman Islands	52	60	56	3	4	5	49	56	51
Costa Rica	309	359	357	108	141	175	201	218	181
Dominican Republic	429	442	532	424	519	578	5	-76	-46
El Salvador	260	309	334	97	127	97	163	182	27
Guatemala	214	258	249	22	41	36	192	217	23
Guyana	31	45	39	1	9	10	21	36	29
Haiti	281	331	312	307	352	374	-27	-20	-62
Honduras	243	264	249	43	46	54	200	218	195
Jamaica	283	299	250	29	40	93	254	259	157
Leeward & Windward Islands	108	138	136	28	38	67	80	100	69
Netherlands Antilles	283	258	177	32	36	33	251	222	144
Nicaragua	101	93	33	4	0	0	97	93	33
Panama	496	538	477	111	89	114	385	449	363
Suriname	87	73	66	4	12	6	83	61	60
Trinidad & Tobago	521	437	362	113	188	146	408	249	216
Turks & Caicos Islands	10	13	9	0	0	0	10	13	9
Other Western Hemisphere	163	203	220	28	28	10	134	175	210
Bermuda	132	171	191	11	8	7	121	163	185
French West Indies	30	31	22	17	14	3	14	17	20
Greenland	1	2	6	1	6	1	0	-4	5
St. Pierre & Miquelon	0	0	0	0	0	0	0	0	0
East Asian NICs	11,246	12,060	11,682	28,713	38,058	40,487	-17,467	-25,998	-28,805
Hong Kong	1,987	2,375	2,140	6,736	8,794	8,885	-4,749	-6,419	-6,745
Korea, South	3,316	3,463	3,571	7,495	9,855	10,463	-4,179	-6,392	-6,892
Singapore	3,113	3,353	3,029	2,719	3,771	3,847	394	-418	-818
Taiwan	2,831	2,869	2,942	11,763	15,638	17,292	-8,932	-12,769	-14,350
Other Asia 4/	6,549	6,897	6,029	6,154	8,213	7,820	395	-1,316	-1,791
Afghanistan	2	4	1	3	3	5	-1	1	-4
Bangladesh	58	63	88	91	139	202	-33	-76	-114
Brunei	55	32	48	1	2	2	54	30	46
Burma	14	16	10	3	4	5	11	12	5
India	1,032	1,193	1,352	1,150	1,523	1,518	-119	-330	-166
Indonesia	937	746	548	455	646	640	482	100	-92
Macao	0	1	1	241	333	362	-241	-332	-361
Malaysia	1,526	1,716	1,431	1,724	2,265	1,920	-198	-549	-489
Nepal	4	3	4	1	8	52	3	-5	-48
Pakistan	602	768	762	160	233	259	442	535	503
Philippines	1,415	1,411	1,054	1,476	1,839	1,615	-62	-428	-561
South Asia NEC	0	2	0	5	8	6	-5	-6	-6
Sri Lanka	43	38	35	157	245	255	-114	-207	-220
Thailand	861	903	695	685	965	979	176	-62	-284

Table 7 (continued)

U.S. Manufactures 1/ Trade with Individual Countries, 1983-85
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.; Millions of dollars)

	U.S. EXPORTS			U.S. IMPORTS			U.S. BALANCE		
	1983	1984	1985	1983	1984	1985	1983	1984	1985
Middle East	11,916	9,084	8,100	1,406	1,950	2,509	10,509	7,134	5,591
Bahrain	109	124	86	2	36	39	107	88	47
Gaza Strip	3	0	0	0	0	0	3	0	0
Iran	189	160	73	27	34	57	162	126	16
Iraq	166	129	105	1	0	5	165	129	100
Israel	1,681	1,847	2,257	1,225	1,720	2,078	456	127	179
Jordan	347	200	308	4	4	14	34	196	294
Kuwait	635	544	470	10	7	6	625	537	464
Lebanon	371	184	83	9	4	12	362	180	71
Oman	161	156	147	9	6	3	152	150	144
Qatar	95	72	56	11	1	16	84	71	40
Saudi Arabia	7,272	4,894	3,941	58	59	202	7,214	4,835	3,739
Syria	85	62	59	1	1	1	84	61	58
United Arab Emirates	771	623	481	48	77	74	723	546	407
Yemen, North	25	28	24	1	0	0	24	28	24
Yemen, South	5	61	8	0	0	1	5	61	7
Africa	3,960	3,755	3,471	465	581	495	3,495	3,174	2,977
Algeria	343	302	163	7	10	10	336	292	153
Angola	71	83	123	3	2	1	68	81	122
Benin	4	2	55	0	0	0	4	2	55
Botswana	1	15	8	1	1	1	0	14	7
Br. Indian Ocean Territory	0	0	0	1	0	2	-1	0	-2
Burundi	2	2	1	0	0	0	2	2	1
Cameroon	81	54	48	10	2	6	72	52	42
Central African Republic	0	1	1	0	0	0	0	1	1
Chad	10	13	8	0	0	0	10	12	8
Comoros	0	0	0	0	0	0	0	0	0
Congo	15	10	19	6	6	1	9	4	18
Djibouti	3	1	4	0	0	0	3	1	4
Egypt	1,761	1,689	1,353	40	58	32	1,721	1,631	1,321
Equatorial Guinea	0	0	0	0	0	0	0	0	0
Ethiopia	31	148	39	1	1	3	30	147	36
Fr. Indian Ocean Areas	1	1	1	0	3	1	1	-2	0
Gabon	62	35	90	1	1	4	61	34	86
Gambia	5	5	8	0	1	0	5	4	8
Ghana	88	16	19	75	0	32	14	16	-13
Guinea	10	8	20	1	1	2	9	7	18
Ivory Coast	43	32	32	5	6	9	38	26	23
Kenya	42	47	54	4	8	27	38	39	27
Lesotho	1	1	1	1	0	1	0	1	0
Liberia	50	46	43	5	4	3	45	42	40
Libya	181	182	304	1	3	6	180	179	298
Madagascar	13	25	16	1	7	2	12	18	14
Malawi	2	2	3	0	0	0	2	2	3
Mali	4	1	5	1	1	5	3	0	0
Mauritania	18	9	4	1	1	0	17	8	4
Mauritius	2	2	5	17	33	67	-15	-31	-62
Morocco	215	90	113	10	13	17	205	77	96
Mozambique	8	5	18	0	0	2	8	5	16
Namibia	3	4	15	0	0	3	3	4	12
Niger	1	0	1	0	0	9	1	0	-8
Nigeria	461	238	359	11	15	6	450	223	353
Rwanda	1	1	1	0	0	1	1	1	0
Saint Helena	0	0	0	0	2	0	0	-2	0
Senegal	21	22	13	2	2	4	19	20	9
Seychelles	1	0	1	3	0	4	-2	0	-3

Table 7 (continued)

U.S. Manufactures 1/ Trade with Individual Countries, 1983-85
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.; Millions of dollars)

	U.S. EXPORTS			U.S. IMPORTS			U.S. BALANCE		
	1983	1984	1985	1983	1984	1985	1983	1984	1985
Africa (continued)									
Sierra Leone	4	12	5	1	2	1	3	10	4
Somalia	22	44	19	0	0	1	22	44	18
Sudan	96	73	72	5	4	1	91	69	71
Swaziland	3	1	1	0	1	4	3	0	-3
Tanzania	20	35	27	6	2	3	14	33	24
Togo	5	4	4	0	1	2	5	3	2
Tunisia	104	289	208	2	18	8	102	271	200
Uganda	4	3	4	0	0	0	4	3	4
Upper Volta	3	4	3	0	0	1	3	4	2
Western Africa NEC	12	18	15	0	0	2	12	18	13
Western Sahara	0	0	0	0	0	0	0	0	0
Zaire	58	56	75	136	188	108	-78	-133	-33
Zambia	21	74	52	54	129	59	-33	-55	-7
Zimbabwe	53	49	37	53	51	41	1	-2	-4
Other Developing Countries	144	126	116	35	40	47	110	86	69
French Pacific Islands	23	26	39	18	18	23	5	8	16
Papua New Guinea	64	32	32	1	3	3	63	29	29
Southern Pacific Islands	4	4	4	0	0	5	4	4	-1
Trust Territory	35	46	34	10	16	10	25	30	25
Western Samoa	3	3	1	0	0	4	3	3	-3
Other Pacific Islands NEC	16	15	6	5	3	4	11	12	2
CENTRALLY PLANNED ECONOMIES 5/	2,106	2,621	4,008	2,602	3,773	4,094	-496	-1,152	-86
China	1,331	1,956	3,181	1,759	2,425	2,838	-428	-469	343
USSR	498	404	477	264	353	295	234	51	182
Eastern Europe	255	238	328	578	993	960	-323	755	632
Albania	0	0	0	2	0	0	-2	0	0
Bulgaria	25	25	28	4	9	14	21	16	14
Czechoslovakia	36	30	43	59	84	76	-23	-54	-33
Germany, East	22	12	9	59	147	97	-37	-135	-88
Hungary	53	44	59	125	190	177	-72	-145	-118
Poland	91	91	124	95	133	116	-5	-42	8
Romania	29	35	66	235	431	481	-206	-396	-415
Other CPEs	21	23	21	1	1	0	20	22	21
Cambodia	0	0	0	0	0	0	0	0	0
Cuba	1	1	1	0	0	0	1	1	1
Korea, North	0	0	0	0	0	0	0	0	0
Laos	0	0	0	1	1	0	-1	-1	0
Mongolia	0	0	0	0	0	0	0	0	0
Vietnam	20	22	20	0	0	0	20	22	20
NOT ACCOUNTED FOR	0	0	126	0	0	0	0	0	126

NOTE: 1985 world total includes $126 million of exports to international organizations.
Because of rounding, aggregations in this table may differ slightly from values in Census sources.
Adjustments to the export and import values for Spain, Portugal, and USSR (and the associated regional aggregations) have been made for 1983 to agree with the 1984 Census definitions of these countries.

1/ Manufactures include SITC 5-9.
2/ Excluding Cambodia, Cuba, and Laos.
3/ Excluding Cuba.
4/ Excluding Cambodia and Laos.
5/ Including Cambodia, Cuba, and Laos.

Source: U.S. Department of Commerce, Bureau of the Census.

Table 8

U.S. Bilateral Manufactures Trade Surpluses and Deficits, 1983-85
by Top 35 Countries in 1985
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.)
(Millions of dollars)

	TRADE SURPLUS 1/				TRADE DEFICIT 2/		
	1983	1984	1985		1983	1984	1985
Australia	2,927	3,658	4,261	Japan	32,209	47,588	59,265
Saudi Arabia	7,214	4,835	3,739	Taiwan	8,932	12,769	14,350
Venezuela	1,598	1,845	2,184	Germany, West	6,060	9,699	12,872
Mexico	205	904	1,758	Canada	3,236	7,941	8,189
Netherlands	2,448	1,860	1,415	Korea, South	4,179	6,392	6,892
Egypt	1,721	1,631	1,321	Hong Kong	4,749	6,419	6,745
Colombia	971	890	828	Italy	2,664	4,580	5,817
Turkey	512	636	780	France	458	2,388	3,440
Pakistan	442	535	503	Sweden	1,123	1,935	2,471
Kuwait	625	537	464	Brazil	956	2,768	2,443
Ecuador	336	407	429	Switzerland	-32	849	1,407
Ireland	560	511	420	United Kingdom	-1,307	-1,027	1,173
United Arab Emirates	723	546	407	Spain	93	974	823
New Zealand	336	370	388	Singapore	-394	418	818
Panama	385	449	363	South Africa	29	560	749
Nigeria	450	223	353	Denmark	227	449	573
China	-428	-469	343	Philippines	62	428	561
Bahamas	220	257	307	Finland	139	421	537
Libya	180	179	298	Malaysia	198	549	489
Jordan	343	196	294	Uruguay	279	464	477
El Salvador	163	182	237	Austria	111	372	431
Belgium/Luxembourg	1,113	631	217	Romania	206	396	415
Trinidad & Tobago	408	249	216	Macao	241	332	361
Guatemala	192	217	213	Portugal	-294	183	297
Tunisia	102	271	200	Thailand	-176	62	284
Honduras	200	218	195	Sri Lanka	114	207	220
Bermuda	121	163	185	India	119	330	166
Argentina	431	341	185	Yugoslavia	102	247	135
USSR	234	51	182	Hungary	72	145	118
Costa Rica	201	218	181	Bangladesh	33	76	114
Israel	456	127	179	Indonesia	-482	-100	92
Jamaica	254	259	157	Germany, East	37	135	88
Algeria	336	292	153	Mauritius	15	31	62
Oman	152	150	144	Haiti	27	20	62
Chile	-214	81	118	Barbados	35	43	52

Note: Manufactures include SITC 5-9.

1/ Negative signs indicate a trade deficit.
2/ Negative signs indicate a trade surplus.

Source: U.S. Department of Commerce, Bureau of the Census.

Table 9

U.S. Trade by Major Commodity Category, 1980-85
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.)
(Millions of dollars)

							1984-85 Change	
EXPORTS	1980	1981	1982	1983	1984	1985	$	%
Food and Live Animals	28,245	30,779	24,376	24,507	24,846	19,621	-5,225	-21.0
Beverages and Tobacco	2,691	2,940	3,046	2,832	2,881	2,995	114	4.0
Crude Materials, inedible	23,938	21,140	19,390	18,730	20,404	17,099	-3,305	-16.2
Mineral Fuels and Lubricants	8,154	10,317	12,777	9,639	9,481	10,102	621	6.5
Oils and Fats	1,964	1,759	1,548	1,464	1,937	1,448	-489	-25.2
Chemicals	20,835	21,267	20,073	19,928	22,585	22,026	-559	-2.5
Basic Manufactures	23,039	21,498	17,560	15,495	15,775	14,589	-1,186	-7.5
Machinery and Transport Eqpt	86,183	97,734	89,286	84,913	93,161	97,848	4,687	5.0
Miscellaneous Manufactures	17,061	17,713	17,037	15,963	16,515	16,247	-268	-1.6
Misc Commodities	8,595	8,501	7,182	7,067	10,301	11,170	869	8.4
IMPORTS								
Food and Live Animals	16,920	16,532	15,732	16,693	19,429	20,292	863	4.4
Beverages and Tobacco	3,027	3,418	3,666	3,710	4,006	4,124	118	2.9
Crude Materials, inedible	11,276	12,052	9,302	10,271	11,882	11,167	-715	-6.0
Mineral Fuels and Lubricants	82,364	84,441	67,657	60,215	63,297	55,843	-7,454	-11.8
Oils and Fats	575	524	446	541	742	730	-12	-1.6
Chemicals	9,009	9,879	9,934	11,304	14,400	15,321	921	6.4
Basic Manufactures	34,111	39,349	34,996	36,750	49,018	49,499	481	1.0
Machinery and Transport Eqpt	63,385	72,185	75,723	88,928	123,104	141,721	18,617	15.1
Miscellaneous Manufactures	24,992	27,579	29,630	33,637	45,361	51,684	6,323	13.9
Misc Commodities	7,271	7,392	7,798	7,830	9,938	11,245	1,307	13.2
BALANCE								
Food and Live Animals	11,325	14,247	8,644	7,814	5,417	-671	-6,088	
Beverages and Tobacco	-336	-478	15,724	-878	-1,125	-1,129	-4	
Crude Materials, inedible	12,662	9,088	10,088	8,459	8,522	5,932	-2,590	
Mineral Fuels and Lubricants	-74,210	-74,124	-54,880	-50,576	-53,816	-45,741	8,075	
Oils and Fats	1,389	1,235	1,102	923	1,195	718	-477	
Chemicals	11,826	11,388	10,139	8,624	8,185	6,705	-1,480	
Basic Manufactures	-11,072	-17,851	-17,436	-21,255	-33,243	-34,910	-1,667	
Machinery and Transport Eqpt	22,798	25,549	13,563	-4,015	-29,943	-43,873	-13,930	
Miscellaneous Manufactures	-7,931	-9,866	-12,593	-17,674	-28,846	-35,437	-6,591	
Misc Commodities	1,324	1,109	-616	-763	363	-75	-438	

Note: 1980 data do not include trade between the U.S. Virgin Islands and foreign countries. Commodity categories are defined by Schedules A and E.

Source: U.S. Department of Commerce, Bureau of the Census.

Table 10

U.S. Exports, by Principal Products, 1980-85
(Domestic and foreign exports, f.a.s.; Millions of dollars)

	1980	1981	1982	1983	1984	1985	$ Change 1984-85	% Change 1984-85	Percent of 1985 Total
TOTAL	220,786	233,649	212,275	200,538	217,888	213,146	-4,742	-2.2	100.0
Food and live animals	28,245	30,779	24,376	24,507	24,846	19,621	-5,225	-21.0	9.2
Wheat	6,376	7,844	6,676	6,239	6,477	3,602	-2,875	-44.4	1.7
Corn	8,571	8,016	5,688	6,480	7,081	5,319	-1,762	-24.9	2.5
Vegetables and fruit	3,031	3,425	2,821	2,545	2,539	2,497	-42	-1.7	1.2
Beverages and tobacco	2,691	2,940	3,046	2,832	2,881	2,995	114	4.0	1.4
Tobacco, unmanufactured	1,344	1,467	1,556	1,472	1,524	1,530	6	0.4	0.7
Crude materials, except fuels	23,938	21,140	19,390	18,730	20,404	17,099	-3,305	-16.2	8.0
Soybeans	5,883	6,200	6,240	5,925	5,438	3,906	-1,532	-28.2	1.8
Cotton, raw, excl linters	2,907	2,299	2,005	1,860	2,476	1,671	-805	-32.5	0.8
Logs and lumber	2,681	2,071	2,113	2,113	2,051	2,045	-6	-0.3	1.0
Ores, concentrates, scrap	4,543	2,746	2,209	2,302	2,706	2,737	31	1.1	1.3
Mineral fuels and lubricants	8,154	10,317	12,777	9,639	9,481	10,102	621	6.5	4.7
Coal, coke, briquettes	4,774	6,006	6,072	4,116	4,219	4,554	335	7.9	2.1
Oils and fats	1,964	1,759	1,548	1,464	1,937	1,448	-489	-25.2	0.7
Chemicals and related products	20,835	21,267	20,073	19,928	22,585	22,026	-559	-2.5	10.3
Organic chemicals	5,731	6,037	5,558	5,421	6,226	6,139	-87	-1.4	2.9
Inorganic chemicals	2,950	3,197	3,112	3,062	3,630	3,299	-331	-9.1	1.5
Medicinals & pharmaceuticals	1,947	2,184	2,300	2,523	2,662	2,752	90	3.4	1.3
Plastics and resins	3,903	3,822	3,665	3,745	4,071	3,794	-277	-6.8	1.8
Manufactures classified chiefly by material	23,039	21,498	17,560	15,495	15,775	14,589	-1,186	-7.5	6.8
Paper and manufactures	2,863	3,004	2,695	2,587	2,651	2,365	-286	-10.8	1.1
Iron and steel mill products	3,162	2,949	2,248	1,544	1,407	1,282	-125	-8.9	0.6
Textiles other than clothing	3,687	3,667	2,834	2,418	2,435	2,429	-6	-0.2	1.1
Machinery and transport eqpt	86,183	97,734	89,286	84,913	93,161	97,848	4,687	5.0	45.9
Aircraft and parts	12,894	14,878	11,887	12,323	11,077	14,624	3,547	32.0	6.9
Aircraft engines and parts	2,002	2,469	2,711	2,897	3,146	3,444	298	9.5	1.6
Motor vehicles and parts	15,082	16,857	14,497	14,860	17,974	19,735	1,761	9.8	9.3
Auto engines and parts	1,705	1,988	2,005	2,107	2,435	2,513	78	3.2	1.2
Computers and parts	4,616	5,043	5,277	5,824	7,230	7,392	162	2.2	3.5
Mining, well-drilling mach	3,170	4,093	4,937	2,931	2,663	2,945	282	10.6	1.4
Miscellaneous manufactures	17,061	17,713	17,037	15,963	16,515	16,247	-268	-1.6	7.6
Professional, scientific, and controlling instruments	5,334	6,081	6,124	5,991	6,366	6,704	338	5.3	3.1
Photo eqpt and supplies	2,576	2,624	2,510	2,312	2,391	2,224	-167	-7.0	1.0
Printed matter	1,105	1,307	1,352	1,339	1,401	1,292	-109	-7.8	0.6
Other commodities	8,595	8,501	7,182	7,067	10,301	11,170	869	8.4	5.2
Military items, incl ordnance	2,028	2,195	3,307	3,161	3,018	2,917	-101	-3.3	1.4

Note: 1980 commodity data excludes exports from the U.S. Virgin Islands to foreign countries.

Source: U.S. Department of Commerce, Bureau of the Census.

Table 11

U.S. Imports, by Principal Products, 1980-85
(General imports, c.i.f.; Millions of dollars)

	1980	1981	1982	1983	1984	1985	$ Change 1984-85	% Change 1984-85	Percent of 1985 Total
TOTAL	256,984	273,352	254,885	269,878	341,177	361,626	20,449	6.0	100.0
Food and live animals	16,920	16,532	15,732	16,693	19,429	20,292	863	4.4	5.6
Fish	2,740	3,108	3,292	3,764	3,859	4,202	343	8.9	1.2
Coffee	4,353	3,046	3,088	2,924	3,441	3,492	51	1.5	1.0
Vegetables and fruit	2,384	3,003	3,279	3,383	4,448	4,619	171	3.8	1.3
Beverages and tobacco	3,027	3,418	3,666	3,710	4,006	4,124	118	2.9	1.1
Alcoholic beverages	2,430	2,625	2,757	2,876	3,147	3,298	151	4.8	0.9
Crude materials, except fuels	11,276	12,052	9,302	10,271	11,882	11,167	-715	-6.0	3.1
Wood	2,333	2,235	1,913	2,938	3,073	3,279	206	6.7	0.9
Pulp	1,774	1,831	1,534	1,516	1,895	1,569	-326	-17.2	0.4
Ores, concentrates, scrap	4,072	4,242	2,999	2,735	3,168	2,564	-604	-19.1	0.7
Mineral fuels and lubricants	82,364	84,441	67,657	60,215	63,297	55,843	-7,454	-11.8	15.4
Petroleum, crude	64,633	64,319	47,445	38,184	37,945	34,123	-3,822	-10.1	9.4
Fuel oil	8,119	9,598	8,774	9,410	10,907	8,100	-2,807	-25.7	2.2
Gas, natural & manufactured	5,274	5,793	6,016	5,748	4,964	4,176	-788	-15.9	1.2
Oils and fats	575	524	446	541	742	730	-12	-1.6	0.2
Chemicals and related products	9,009	9,879	9,934	11,304	14,400	15,321	921	6.4	4.2
Organic chemicals	2,688	3,129	3,109	3,644	4,489	4,833	344	7.7	1.3
Inorganic chemicals	2,414	2,455	2,740	2,678	3,603	3,554	-49	-1.4	1.0
Fertilizers	1,139	1,220	1,015	1,056	1,221	1,049	-172	-14.1	0.3
Manufactures classified chiefly by material	34,111	39,349	34,996	36,750	49,018	49,499	481	1.0	13.7
Paper and manufactures	3,697	3,974	3,954	4,361	5,822	6,248	426	7.3	1.7
Textiles other than clothing	2,676	3,250	3,000	3,460	4,874	5,274	400	8.2	1.5
Iron and steel mill products	8,160	12,148	10,376	7,408	11,853	11,223	-630	-5.3	3.1
Nonferrous metals	7,715	7,078	5,420	7,545	8,350	7,172	-1,178	-14.1	2.0
Machinery and transport eqpt	63,385	72,185	75,723	88,928	123,104	141,721	18,617	15.1	39.2
Power generating machinery	3,943	4,681	4,621	5,384	7,465	9,051	1,586	21.2	2.5
Specialized industrial mach and parts	4,864	5,288	4,730	5,022	7,441	8,032	591	7.9	2.2
General industrial machinery and parts	4,150	5,066	5,033	5,037	7,248	8,527	1,279	17.6	2.4
Telecommunications apparatus	6,953	9,178	9,288	11,619	16,423	19,114	2,691	16.4	5.3
Electrical mach and parts	8,313	9,431	10,525	12,828	18,789	18,192	-597	-3.2	5.0
Passenger cars, new	17,779	18,583	21,043	24,261	30,207	37,617	7,410	24.5	10.4
Automotive parts	5,060	4,019	4,259	6,222	8,797	10,240	1,443	16.4	2.8
Miscellaneous manufactures	24,992	27,579	29,630	33,637	45,361	51,684	6,323	13.9	14.3
Clothing	6,849	8,008	8,703	10,292	14,513	16,056	1,543	10.6	4.4
Footwear	2,990	3,215	3,671	4,291	5,424	6,104	680	12.5	1.7
Toys, sporting equipment	2,041	2,326	2,978	2,702	3,700	4,451	751	20.3	1.2
Other commodities	7,271	7,392	7,798	7,830	9,938	11,245	1,307	13.2	3.1

Note: 1980 commodity data excludes imports from foreign countries to the U.S. Virgin Islands.

Source: U.S. Department of Commerce, Bureau of the Census.

Table 12

Top 10 U.S. Commodity Exports and Imports in 1985
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.)
(Millions of dollars)

	1984	1985	Change $	Percent of 1985 total
EXPORTS				
Total Exports	217,888	213,146	-4,742	100.0
ADP Equipment and Parts	14,567	15,209	642	7.1
Aircraft and Equipment	11,077	14,624	3,547	6.9
Motor Vehicle Parts	10,639	10,933	294	5.1
Passenger Motor Vehicles	5,077	6,154	1,077	2.9
Measuring and Checking Instr	5,327	5,515	188	2.6
Corn	6,398	5,295	-1,103	2.5
Electronic Components, Parts	6,398	5,295	-1,103	2.5
Organic Chemicals	5,037	4,955	-82	2.3
Coal	4,132	4,465	333	2.1
Oilseeds	6,170	4,291	-1,879	2.0
IMPORTS				
Total Imports	341,177	361,626	20,449	100.0
Passenger Motor Vehicles	31,192	39,089	7,897	10.8
Crude Petroleum	37,945	34,123	-3,822	9.4
Petroleum Products	19,752	16,741	-3,011	4.6
Motor Vehicle Parts	8,598	9,801	1,203	2.7
Special Purpose Vehicles	6,308	7,558	1,250	2.1
Telecommunications Eqpt, misc	6,817	7,285	468	2.0
Electronic Components, Parts	8,348	6,319	-2,029	1.7
Footwear	5,424	6,103	679	1.7
TV and VCR Equipment	4,369	6,037	1,668	1.7
Paper and Paperboard	5,295	5,657	362	1.6

Source: U.S. Department of Commerce, Bureau of the Census.

Table 13

U.S. Trade by Selected End-Use Product Categories, 1980-85
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.)
(Millions of dollars)

	1980	1981	1982	1983	1984	1985	1984-85 Change $	1984-85 Change %
EXPORTS								
Foods, Feeds, and Beverages	35,829	38,396	31,779	31,294	31,931	24,383	-7,548	-23.6
Industrial Supplies and Materials	71,229	68,286	62,324	57,174	62,331	59,359	-2,972	-4.8
Capital Goods, except auto products	73,878	81,768	74,478	69,426	74,864	77,153	2,289	3.1
Automotive Products	16,147	18,407	16,385	17,365	21,291	23,315	2,024	9.5
Consumer Goods, except auto products	17,474	17,383	15,844	14,410	14,393	13,687	-706	-4.9
IMPORTS								
Foods, Feeds, and Beverages	19,508	19,676	18,676	19,757	22,829	23,918	1,089	4.8
Industrial Supplies and Materials	132,540	139,586	113,657	110,625	127,960	119,549	-8,411	-6.6
Capital Goods, except auto products	31,590	36,807	38,697	42,310	62,106	67,298	5,192	8.4
Automotive Products	28,554	31,026	35,563	43,420	56,835	68,925	12,090	21.3
Consumer Goods, except auto products	36,047	40,495	41,683	47,408	63,600	72,471	8,871	13.9
BALANCE								
Foods, Feeds, and Beverages	16,321	18,720	13,103	11,537	9,102	465	-8,637	-94.9
Industrial Supplies and Materials	-61,311	-71,300	-51,333	-53,451	-65,629	-60,190	5,439	-8.3
Capital Goods, except auto products	42,288	44,961	35,781	27,116	12,758	9,855	-2,903	-22.8
Automotive Products	-12,407	-12,619	-19,178	-26,055	-35,544	-45,610	-10,066	28.3
Consumer Goods, except auto products	-18,573	-23,112	-25,839	-32,998	-49,207	-58,784	-9,577	19.5

Note: For consistency with other tables, export data include both domestic merchandise and re-exports. Special category exports are excluded. 1980 data do not include trade between the U.S. Virgin Islands and foreign countries.

Source: U.S. Department of Commerce, Bureau of the Census.

Table 14

U.S. Trade in High-Tech and Non-High Tech Manufactures, 1978-85
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.)
(Millions of dollars)

	Value					
	High Technology 1/			Non-High Technology		
	Exports	Imports	Balance	Exports	Imports	Balance
1978...	34,839	20,293	14,546	66,635	90,596	-23,961
1979...	43,524	22,753	20,771	84,646	101,002	-16,356
1980...	54,712	28,015	26,697	101,096	110,765	-9,669
1981...	60,390	33,826	26,564	106,459	122,525	-16,066
1982...	58,112	34,521	23,591	93,152	123,593	-30,441
1983...	60,158	41,397	18,761	83,337	137,078	-53,741
1984...	65,510	59,464	6,046	92,939	182,326	-89,387
1985...	68,425	64,778	3,647	93,549	204,586	-111,037

	High-Technology Share (Percent)			
	Total U.S.		U.S. Manufactures	
	Exports	Imports	Exports	Imports
1978.....	24.2	10.9	34.3	18.3
1979.....	23.9	10.2	34.0	18.4
1980.....	24.8	10.9	35.1	20.2
1981.....	25.8	12.4	36.2	21.6
1982.....	27.4	13.5	38.4	21.8
1983.....	30.0	15.3	41.9	23.2
1984.....	30.1	17.4	41.3	24.6
1985.....	32.1	17.9	42.2	24.0

Note: 1978-80 data exclude trade between the U.S. Virgin Islands and foreign countries.

1/ U.S. Department of Commerce, DOC-3 definition.

Source: U.S. Department of Commerce, Bureau of the Census.

Table 15

U.S. Trade in High-Technology Manufactures, by Product Group, 1980-85
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.)
(Millions of dollars)

EXPORTS	1980	1981	1982	1983	1984	1985	1984-85 Change $	1984-85 Change %
Total High-Technology	54,712	60,390	58,112	60,158	65,510	68,425	2,915	4.4
Guided missiles, spacecraft	749	557	1,133	994	962	827	-135	-14.0
Commun. eqpt., elec components	10,349	11,392	11,803	12,363	14,425	13,472	-953	-6.6
Aircraft and parts	14,558	16,885	14,131	14,637	13,540	17,535	3,995	29.5
Office, computing, acctg mach	8,650	9,810	10,148	11,719	14,699	15,421	722	4.9
Ordinance and accessories	647	676	716	907	845	714	-131	-15.5
Drugs and medicines	1,983	2,220	2,329	2,564	2,672	2,724	52	1.9
Industrial inorg chemicals	2,892	3,111	3,017	3,070	3,543	3,335	-208	-5.9
Prof and scientific instr	6,490	7,078	7,005	6,867	7,198	7,134	-64	-0.9
Engines, turbines, parts	3,603	3,831	3,601	3,016	3,234	3,127	-107	-3.3
Plastics and resins	4,789	4,831	4,228	4,021	4,392	4,137	-255	-5.8
IMPORTS								
Total High Technology	28,015	33,826	34,521	41,397	59,464	64,778	5,314	8.9
Guided missiles, spacecraft	0	0	0	40	227	124	-103	-45.4
Commun. eqpt., elec components	12,165	15,082	15,983	19,577	28,343	30,179	1,836	6.5
Aircraft and parts	2,664	3,664	3,327	2,656	3,684	4,718	1,034	28.1
Office, computing, acctg mach	2,597	3,018	3,840	6,368	10,386	10,901	515	5.0
Ordinance and accessories	144	172	178	140	203	255	52	25.6
Drugs and medicines	959	1,070	1,077	1,349	1,717	1,946	229	13.3
Industrial inorg chemicals	2,359	2,453	2,383	2,634	3,278	3,221	-57	-1.7
Prof and scientific instr	4,845	5,739	5,458	6,107	7,875	8,895	1,020	13.0
Engines, turbines, parts	1,728	1,949	1,627	1,508	2,326	2,980	654	28.1
Plastics and resins	552	678	648	1,019	1,427	1,560	133	9.3
BALANCE								
Total High-Technology	26,697	26,564	23,591	18,761	6,046	3,647	-2,399	
Guided missiles, spacecraft	749	557	1,133	954	735	703	-32	
Commun. eqpt., elec components	-1,816	-3,690	-4,180	-7,214	-13,918	-16,707	-2,789	
Aircraft and parts	11,894	13,221	10,804	11,981	9,856	12,817	2,961	
Office, computing, acctg mach	6,053	6,792	6,308	5,351	4,313	4,520	207	
Ordinance and accessories	503	504	538	767	642	459	-183	
Drugs and medicines	1,024	1,150	1,252	1,215	955	778	-177	
Industrial inorg chemicals	533	658	634	436	265	114	-151	
Prof and scientific instr	1,645	1,339	1,547	760	-677	-1,761	-1,084	
Engines, turbines, parts	1,875	1,882	1,974	1,508	908	147	-761	
Plastics and resins	4,237	4,153	3,580	3,002	2,965	2,577	-388	

Note: 1980 data exclude trade between the U.S. Virgin Islands and foreign countries.

Source: U.S. Department of Commerce, Bureau of the Census.

Table 16

U.S. Trade in High-Technology Manufactures, by Region, 1980-85 1/
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.)
(Millions of dollars)

EXPORTS	1980 2/	1981	1982	1983	1984	1985	1984-85 Change $	1984-85 Change %
World	54,712	60,390	58,112	60,158	65,510	68,425	2,915	4.4
Developed Countries	32,469	36,127	33,606	36,407	40,339	42,010	1,671	4.1
Canada	5,476	6,727	6,148	6,808	8,383	8,134	-249	-3.0
Japan	4,063	4,854	4,806	5,614	6,147	6,605	458	7.5
European Community (EC10)	17,248	17,682	16,522	17,330	19,669	20,179	510	2.6
Other Developed	5,682	6,864	6,130	6,655	6,140	7,092	952	15.5
Developing Countries	18,993	20,352	19,458	19,031	20,678	20,618	60	-0.3
Western Hemisphere	8,107	9,176	6,996	5,902	6,783	7,419	636	9.4
Mexico	3,016	3,858	2,440	2,229	2,965	3,308	343	11.6
Brazil	1,222	1,212	967	919	855	1,258	403	47.1
Other W. Hemisphere	3,869	4,106	3,589	2,754	2,963	2,853	-110	-3.7
East Asian NICs	4,514	4,315	4,532	5,709	6,384	6,262	-122	-1.9
Other Developing	6,372	6,861	7,930	7,420	7,511	6,937	-574	-7.6
Centrally Planned Economies	867	962	747	790	951	1,856	905	95.2
China	665	827	634	651	822	1,707	885	107.7
U.S.S.R.	47	56	47	75	62	48	-14	-22.6
Eastern Europe	155	79	65	64	67	100	33	49.3
Special Category	2,384	2,949	4,302	3,929	3,544	3,815	271	7.6
Not Classed by Region 3/	0	0	0	0	0	126	126	---
Addendum: OPEC	3,339	3,686	4,392	3,348	2,946	3,114	168	5.7
IMPORTS								
World	28,015	33,826	34,521	41,397	59,464	64,778	5,314	8.9
Developed Countries	19,272	23,586	23,638	27,268	40,478	46,422	5,944	14.7
Canada	2,791	3,627	3,397	3,498	5,120	5,365	245	4.8
Japan	7,835	10,732	11,254	14,441	22,184	25,165	2,981	13.4
European Community (EC10)	6,793	7,335	6,998	7,391	10,646	12,953	2,307	21.7
Other Developed	1,853	1,892	1,989	1,938	2,528	2,939	411	16.3
Developing Countries	8,614	10,135	10,771	14,021	18,839	18,181	-658	-3.5
Western Hemisphere	2,198	2,610	2,484	3,162	4,090	4,059	-31	-0.8
Mexico	1,545	1,776	1,786	2,186	2,736	2,895	159	5.8
Brazil	189	313	285	337	577	568	-9	-1.6
Other W. Hemisphere	464	521	413	639	777	596	-181	-23.3
East Asian NICs	4,685	5,486	5,876	8,191	11,191	11,134	-57	-0.5
Other Developing	1,731	2,039	2,411	2,668	3,558	2,988	-570	-16.0
Centrally Planned Economies	128	105	110	109	146	174	28	19.2
China	27	44	56	62	99	115	16	16.2
U.S.S.R.	49	15	14	14	4	5	1	25.0
Eastern Europe	51	45	39	33	42	54	12	28.6
Addendum: OPEC	63	57	81	90	135	47	-88	-65.2

Table 16 (continued)

U.S. Trade in High-Technology Manufactures, by Region, 1980-85 1/
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.)
(Millions of dollars)

BALANCE	1980 2/	1981	1982	1983	1984	1985	1984-85 Change
World	26,697	26,564	23,591	18,761	6,046	3,647	-2,399
Developed Countries	13,197	12,541	9,968	9,139	139	-4,412	-4,273
Canada	2,685	3,100	2,751	3,310	3,263	2,769	-494
Japan	-3,772	-5,878	-6,448	-8,827	-16,037	-18,560	-2,523
European Community (EC10)	10,455	10,347	9,524	9,939	9,023	7,226	-1,797
Other Developed	3,829	4,972	4,141	4,717	3,612	4,153	541
Developing Countries	10,379	10,217	8,687	5,010	1,839	2,437	598
Western Hemisphere	5,909	6,566	4,512	2,740	2,693	3,360	667
Mexico	1,471	2,082	654	43	229	413	184
Brazil	1,033	899	682	582	278	690	412
Other W. Hemisphere	3,405	3,585	3,176	2,115	2,186	2,257	71
East Asian NICs	-171	-1,171	-1,344	-2,482	-4,807	-4,872	-65
Other Developing	4,641	4,822	5,519	4,752	3,953	3,949	-4
Centrally Planned Economies	739	857	637	681	805	1,682	877
China	638	783	578	589	723	1,592	869
U.S.S.R.	-2	41	33	61	58	43	-15
Eastern Europe	104	34	26	31	25	46	21
Addendum: OPEC	3,276	3,629	4,311	3,258	2,811	3,067	256

Note: Regional and country data exclude special category exports.

1/ U.S. Department of Commerce, DOC-3 definition.
2/ 1980 data exclude trade between the U.S. Virgin Islands and foreign countries.
3/ Includes international organizations.

Source: U.S. Department of Commerce, Bureau of the Census.

Table 17

U.S. Trade in Petroleum and Petroleum Products 1/, 1970-85
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.)
(Billions of dollars)

	Imports						
	Crude Petroleum			Petroleum Products	Total	Exports	Balance
	Value	Quantity 2/	Price 3/	Value	Value	Value	Value
1970.....	1.4	545	2.57	1.7	3.1	0.5	-2.6
1971.....	1.8	676	2.66	2.1	3.9	0.5	-3.4
1972.....	2.5	901	2.77	2.4	4.9	0.4	-4.5
1973.....	4.5	1,294	3.48	4.4	8.9	0.5	-8.4
1974.....	16.6	1,367	12.14	12.1	28.7	0.5	-28.2
1975.....	19.8	1,585	12.49	9.3	29.1	0.9	-28.2
1976.....	27.5	2,050	13.41	9.9	37.4	1.0	-36.4
1977.....	35.7	2,533	14.09	12.4	48.1	1.3	-46.8
1978.....	34.3	2,392	14.34	10.5	44.8	1.6	-43.2
1979.....	49.0	2,467	19.86	14.4	63.4	1.9	-61.5
1980.....	64.6	2,092	30.88	17.4	82.0	2.8	-79.2
1981.....	64.3	1,763	36.47	15.4	79.7	3.7	-76.0
1982.....	47.4	1,421	33.86	15.3	62.7	5.9	-56.8
1983.....	38.2	1,294	29.52	17.1	55.3	4.6	-50.7
1984.....	37.9	1,320	28.75	21.3	59.2	4.5	-54.7
1985.....	34.1	1,261	27.07	18.2	52.4	4.7	-47.7

Note: 1970-73 data are estimated.

1/ Defined by the U.S. Department of Commerce, Bureau of the Census.
2/ Millions of barrels.
3/ Dollars per barrel.

Source: U.S. Department of Commerce, Bureau of the Census.

Table 18

U.S. Trade in Agricultural Products, by Region, 1980-85
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.)
(Millions of dollars)

							1984-85 Change	
EXPORTS	1980	1981	1982	1983	1984	1985	$	%
World	41,757	43,814	37,010	36,454	38,231	29,632	-8,599	-22.5
Developed Countries	20,729	21,535	19,449	18,964	18,931	14,627	-4,304	-22.7
Canada	2,211	2,322	2,114	2,092	2,228	1,875	-353	-15.8
Japan	6,117	6,570	5,551	6,246	6,762	5,404	-1,358	-20.1
European Community (EC10)	9,307	9,098	8,300	7,322	6,481	5,212	-1,269	-19.6
Other Developed	3,094	3,545	3,484	3,304	3,460	2,136	-1,324	-38.3
Developing Countries	14,861	16,167	13,051	14,644	14,942	12,419	-2,523	-16.9
Western Hemisphere	6,218	6,409	4,461	5,239	5,322	4,499	-823	15.5
Mexico	2,503	2,438	1,159	1,945	2,039	1,693	-346	-17.0
Brazil	681	712	527	479	505	470	-35	-6.9
Other W. Hemisphere	3,034	3,259	2,775	2,815	2,778	2,336	-442	-15.9
East Asian NICs	3,468	3,738	3,289	3,664	3,672	3,160	-512	-13.9
Other Developing	5,175	6,020	5,301	5,741	5,948	4,760	-1,188	-20.0
Centrally Planned Economies	5,051	5,136	4,005	2,557	3,989	2,348	-1,641	-41.1
China	2,210	1,956	1,498	546	615	149	-466	-75.8
U.S.S.R.	1,047	1,665	1,855	1,457	2,817	1,864	-953	-33.8
Eastern Europe	1,794	1,514	651	554	557	334	-223	-40.0
Not Classed by Region	1,116	976	505	289	369	238	-131	-35.5
IMPORTS								
World	18,878	18,807	17,286	18,102	21,582	22,019	437	2.0
Developed Countries	6,418	6,661	6,969	7,379	8,544	9,023	479	5.6
Canada	1,077	1,177	1,408	1,507	1,856	1,919	63	3.4
Japan	113	133	144	187	244	269	25	10.2
European Community (EC10)	2,370	2,544	2,771	3,049	3,654	4,055	401	11.0
Other Developed	2,858	2,807	2,646	2,636	2,790	2,780	-10	-0.4
Developing Countries	12,027	11,535	9,930	10,293	12,591	12,525	-66	-0.5
Western Hemisphere	7,825	7,341	6,373	6,695	8,230	8,346	116	1.4
Mexico	1,099	1,143	1,172	1,269	1,297	1,456	159	12.3
Brazil	2,155	2,190	1,680	1,737	2,541	2,362	-179	-7.0
Other W. Hemisphere	4,571	4,008	3,521	3,689	4,392	4,528	136	3.1
East Asian NICs	355	356	361	404	446	450	4	0.9
Other Developing	3,847	3,838	3,196	3,194	3,915	3,729	-186	-4.8
Centrally Planned Economies	433	611	387	430	447	471	24	5.4
China	148	355	191	189	213	221	8	3.8
U.S.S.R.	9	13	11	12	11	9	-2	-18.2
Eastern Europe	275	237	181	225	219	237	18	8.2

Table 18 (continued)

U.S. Trade in Agricultural Products, by Region, 1980-85
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.)
(Millions of dollars)

BALANCE	1980	1981	1982	1983	1984	1985	1984-85 Change
World	22,879	25,007	19,724	18,352	16,649	7,613	-9,036
Developed Countries	14,311	14,874	12,480	11,585	10,387	5,604	-4,783
Canada	1,134	1,145	706	585	372	-44	-416
Japan	6,004	6,437	5,407	6,059	6,518	5,135	-1,383
European Community (EC10)	6,937	6,554	5,529	4,273	2,827	1,157	-1,670
Other Developed	236	738	838	668	670	-644	-1,314
Developing Countries	2,834	4,632	3,121	4,351	2,351	-106	-2,457
Western Hemisphere	-1,607	932	-1,912	-1,456	-2,908	-3,847	-939
Mexico	1,404	1,295	-13	676	742	237	-505
Brazil	-1,474	-1,478	-1,153	-1,258	-2,036	-1,892	144
Other W. Hemisphere	-1,537	-749	-746	-874	-1,614	-2,192	-578
East Asian NICs	3,113	3,382	2,928	3,260	3,226	2,710	-516
Other Developing	1,328	2,182	2,105	2,547	2,033	1,031	-1,002
Centrally Planned Economies	4,618	4,525	3,618	2,127	3,542	1,877	-1,665
China	2,062	1,601	1,307	357	402	-72	-474
U.S.S.R.	1,038	1,652	1,844	1,445	2,806	1,855	-951
Eastern Europe	1,519	1,277	470	329	338	97	-241

Note: 1980 data do not include trade between the U.S. Virgin Islands and foreign countries.

Source: U.S. Department of Commerce, Bureau of the Census.

Table 19

U.S. Trade Volume and Average Unit Value Indexes (UVIs), 1980-85
(1983=100)

	Total Trade				Manufactures Trade 1/			
	Exports		Imports		Exports		Imports	
	UVI	Volume	UVI	Volume	UVI	Volume	UVI	Volume
1980.....	89.6	123.3	100.5	93.0	83.6	129.1	97.9	79.4
1981.....	97.9	119.5	106.0	95.4	93.7	124.5	101.3	86.4
1982.....	99.0	106.8	104.3	90.6	99.0	106.6	103.1	86.0
1983.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1984.....	101.4	106.8	101.9	123.9	100.9	107.5	103.0	131.1
1985.....	100.6	104.8	99.3	134.7	103.0	106.5	101.7	147.1

1/ Manufactures include Schedules A and E 5-8.

Source: U.S. Department of Commerce, Bureau of the Census.

Table 20

Top 10 U.S. Trading Partners in 1985
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.)
(Millions of dollars)

TOTAL EXPORTS

	1983	1984	1985	Percent of 1985 exports
Canada	38,244	46,524	47,251	22.2
Japan	21,894	23,575	22,631	10.6
Mexico	9,082	11,992	13,635	6.4
United Kingdom	10,621	12,210	11,273	5.3
Germany, West	8,737	9,084	9,050	4.2
Netherlands	7,767	7,554	7,269	3.4
France	5,961	6,037	6,096	2.9
Korea, South	5,925	5,983	5,956	2.8
Australia	3,954	4,793	5,441	2.6
Belgium	5,049	5,301	4,918	2.3

TOTAL IMPORTS

	1983	1984	1985	Percent of 1985 imports
Japan	43,559	60,371	72,380	20.0
Canada	52,546	66,911	69,427	19.2
Germany, West	13,229	17,810	21,232	5.9
Mexico	17,019	18,267	19,392	5.4
Taiwan	12,110	16,088	17,761	4.9
United Kingdom	12,900	15,044	15,573	4.3
Korea, South	7,657	10,027	10,713	3.0
Italy	5,819	8,504	10,381	2.9
France	6,308	8,516	9,959	2.8
Hong Kong	6,825	8,899	8,994	2.5

MANUFACTURES EXPORTS

	1983	1984	1985	Percent of 1985 exports
Canada	33,075	40,856	42,443	26.2
Japan	10,837	12,126	12,363	7.6
Mexico	6,486	9,079	10,839	6.7
United Kingdom	9,058	10,664	10,074	6.2
Germany, West	6,492	7,325	7,466	4.6
France	4,912	4,992	5,188	3.2
Australia	3,583	4,391	5,067	3.1
Netherlands	4,165	4,303	4,321	2.7
Saudi Arabia	7,272	4,894	3,941	2.4
Korea, South	3,316	3,463	3,571	2.2

MANUFACTURES IMPORTS

	1983	1984	1985	Percent of 1985 imports
Japan	43,046	59,713	71,628	26.6
Canada	36,311	48,796	50,632	18.8
Germany, West	12,552	17,025	20,338	7.6
Taiwan	11,763	15,638	17,292	6.4
United Kingdom	7,752	9,637	11,247	4.2
Korea, South	7,495	9,855	10,463	3.9
Mexico	6,281	8,175	9,081	3.4
Hong Kong	6,736	8,794	8,885	3.3
Italy	4,973	7,285	8,866	3.3
France	5,370	7,380	8,628	3.2

Note: Manufactures include SITC 5-9.

Source: U.S. Department of Commerce, Office of Trade and Investment Analysis.

Table 21

U.S. Merchandise Trade with Canada, 1980-85
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.)
(Millions of dollars)

	EXPORTS				
			Manufactured Products		
	Total	Agricultural	Total	High Tech.	Auto-motive
1980.....	35,395	2,211	29,590	5,476	8,913
1981.....	39,565	2,322	33,738	6,727	10,129
1982.....	33,720	2,114	28,517	6,148	9,354
1983.....	38,244	2,092	33,075	6,807	12,395
1984.....	46,525	2,228	40,856	8,383	15,656
1985.....	47,252	1,875	42,443	8,134	17,472
	IMPORTS				
1980.....	41,995	1,077	27,741	2,791	8,667
1981.....	46,827	1,177	31,580	3,627	10,403
1982.....	46,792	1,408	32,082	3,397	13,295
1983.....	52,546	1,507	36,311	3,498	16,939
1984.....	66,911	1,856	48,796	5,120	23,036
1985.....	69,427	1,919	50,632	5,365	24,718
	BALANCE				
1980.....	-6,600	1,134	1,849	2,685	246
1981.....	-7,262	1,145	2,158	3,100	-274
1982.....	-13,072	706	-3,565	2,751	-3,941
1983.....	-14,302	585	-3,236	3,309	-4,544
1984.....	-20,386	372	-7,940	3,263	-7,380
1985.....	-22,175	-44	-8,189	2,769	-7,246

Note: Manufactured products include SITC 5-9.

Source: U.S. Department of Commerce, Bureau of the Census.

Table 22

U.S. Merchandise Trade with Japan, 1980-85
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.)
(Millions of dollars)

	EXPORTS				
			Manufactured Products		
	Total	Agricultural	Total	High Tech.	Auto-motive
1980.....	20,790	6,117	8,960	4,063	208
1981.....	21,823	6,570	10,104	4,854	189
1982.....	20,966	5,551	10,009	4,806	198
1983.....	21,894	6,246	10,837	5,614	206
1984.....	23,575	6,762	12,126	6,147	247
1985.....	22,631	5,404	12,363	6,605	257
	IMPORTS				
1980.....	32,961	113	32,523	7,835	12,399
1981.....	39,904	133	39,475	10,732	13,960
1982.....	39,931	144	39,501	11,254	14,208
1983.....	43,559	187	43,046	14,441	16,341
1984.....	60,371	244	59,713	22,184	20,190
1985.....	72,380	269	71,627	25,165	24,718
	BALANCE				
1980.....	-12,171	6,004	-23,563	-3,772	-12,191
1981.....	-18,081	6,437	-29,371	-5,878	-13,771
1982.....	-18,965	5,407	-29,492	-6,448	-14,010
1983.....	-21,665	6,059	-32,209	-8,827	-16,135
1984.....	-36,796	6,518	-47,587	-16,037	-19,943
1985.....	-49,749	5,135	-59,264	-18,560	-24,461

Note: Manufactured products include 5ITC 5-9.

Source: U.S. Department of Commerce, Bureau of the Census.

Table 23

U.S. Merchandise Trade with EC-10, 1980-85
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.)
(Millions of dollars)

	EXPORTS				
			Manufactured Products		
	Total	Agricultural	Total	High Tech.	Auto-motive
1980.....	54,600	9,307	38,650	17,248	979
1981.....	52,363	9,098	36,901	17,682	1,008
1982.....	47,933	8,300	32,981	16,522	982
1983.....	44,311	7,322	31,881	17,330	869
1984.....	46,976	6,481	35,477	19,669	890
1985.....	45,776	5,212	35,539	20,179	901
	IMPORTS				
1980.....	38,329	2,370	32,268	6,793	6,035
1981.....	43,653	2,544	33,495	7,335	4,872
1982.....	44,466	2,771	33,647	6,998	5,542
1983.....	45,879	3,049	35,678	7,391	6,374
1984.....	60,266	3,654	48,432	10,646	8,499
1985.....	68,246	4,055	57,259	12,953	10,879
	BALANCE				
1980.....	16,271	6,937	6,382	10,455	-5,056
1981.....	8,710	6,554	3,406	10,347	-3,864
1982.....	3,467	5,529	-666	9,524	-4,560
1983.....	-1,568	4,273	-3,797	9,939	-5,505
1984.....	-13,290	2,827	-12,955	9,023	-7,609
1985.....	-22,470	1,157	-21,720	7,226	-9,978

Note: Manufactured products include SITC 5-9.

Source: U.S. Department of Commerce, Bureau of the Census.

Table 24

U.S. Merchandise Trade with the
Western Hemisphere Developing Countries, 1980-85
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.)
(Millions of dollars)

	EXPORTS				
			Manufactured Products		
	Total	Agricultural	Total	High Tech.	Auto-motive
1980.....	38,714	6,218	30,200	8,107	3,062
1981.....	42,100	6,409	33,531	9,176	3,771
1982.....	33,588	4,461	26,046	6,996	2,684
1983.....	25,724	5,239	18,295	5,902	1,645
1984.....	29,681	5,322	21,690	6,783	2,468
1985.....	31,013	4,499	23,585	7,419	2,913

	IMPORTS				
			Manufactured Products		
	Total	Agricultural	Total	High Tech.	Textiles, Apparel
1980.....	38,697	7,825	8,781	2,198	878
1981.....	40,786	7,341	10,544	2,610	951
1982.....	39,580	6,373	10,434	2,484	869
1983.....	43,560	6,695	13,351	3,162	1,012
1984.....	50,044	8,230	17,686	4,090	1,417
1985.....	49,087	8,346	18,414	4,059	1,589

	BALANCE				
			Manufactured Products		
	Total	Agricultural		Total	High Tech.
1980.....	17	-1,607	---	21,419	5,909
1981.....	1,314	-932	---	22,987	6,566
1982.....	-5,992	-1,912	---	15,612	4,512
1983.....	-17,836	-1,456	---	4,944	2,740
1984.....	-20,363	-2,908	---	4,004	2,693
1985.....	-18,074	-3,847	---	5,171	3,360

Note: Manufactured products include SITC 5-9.

Source: U.S. Department of Commerce, Bureau of the Census.

Table 25

U.S. Merchandise Trade with Mexico, 1980-85
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.)
(Millions of dollars)

	EXPORTS				
			Manufactured Products		
	Total	Agricultural	Total	High Tech.	Auto-motive
1980.....	15,144	2,503	11,668	3,016	1,527
1981.....	17,788	2,438	14,409	3,858	2,050
1982.....	11,817	1,159	9,180	2,440	1,254
1983.....	9,082	1,945	6,486	2,229	835
1984.....	11,992	2,039	9,079	2,965	1,496
1985.....	13,635	1,693	10,839	3,308	2,030

	IMPORTS				
			Manufactured Products		
	Total	Agricultural	Total	High Tech.	Textiles, Apparel
1980.....	12,774	1,099	4,321	1,545	307
1981.....	14,013	1,143	5,159	1,776	313
1982.....	15,770	1,172	5,245	1,786	224
1983.....	17,019	1,269	6,281	2,186	255
1984.....	18,267	1,297	8,175	2,736	344
1985.....	19,392	1,456	9,081	2,895	370

	BALANCE				
			Manufactured Products		
	Total	Agricultural	Total		High Tech.
1980.....	2,370	1,404	7,347	---	1,471
1981.....	3,775	1,295	9,250	---	2,082
1982.....	-3,953	-13	3,935	---	654
1983.....	-7,937	676	205	---	43
1984.....	-6,275	742	904	---	229
1985.....	-5,757	237	1,758	---	413

Note: Manufactured products include SITC 5-9.

Source: U.S. Department of Commerce, Bureau of the Census.

Table 26

U.S. Merchandise Trade with the East Asian NIC's, 1980-85
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.)
(Millions of dollars)

	EXPORTS			
			Manufactured Products	
	Total	Agricultural	Total	High Tech.
1980.....	14,741	3,468	9,948	4,514
1981.....	15,059	3,738	9,795	4,315
1982.....	15,563	3,289	10,545	4,532
1983.....	16,914	3,664	11,246	5,709
1984.....	17,723	3,672	12,060	6,384
1985.....	16,918	3,160	11,682	6,262

	IMPORTS			
			Manufactured Products	
	Total	Total	High Tech.	Textiles Apparel
1980.....	18,805	18,143	4,685	4,833
1981.....	22,057	21,303	5,486	5,634
1982.....	23,767	22,981	5,876	5,987
1983.....	29,561	28,713	8,191	6,948
1984.....	39,135	38,058	11,191	9,291
1985.....	41,880	40,487	11,134	9,777

	BALANCE			
			Manufactured Products	
	Total		Total	High Tech.
1980.....	-4,064	---	-8,195	-171
1981.....	-6,998	---	-11,508	-1,171
1982.....	-8,204	---	-12,436	-1,344
1983.....	-12,647	---	-17,467	-2,482
1984.....	-21,412	---	-25,998	-4,807
1985.....	-24,962	---	-28,805	-4,872

Note: Manufactured products include SITC 5-9.

Source: U.S. Department of Commerce, Bureau of the Census.

Table 27

U.S. Merchandise Trade with OPEC, 1980-85
(Domestic and foreign exports, f.a.s.; General imports, c.i.f.)
(Millions of dollars)

	EXPORTS			
			Manufactured Products	
	Total	Agricultural	Total	High Tech.
1980.....	17,761	2,590	14,431	3,339
1981.....	21,530	3,243	17,499	3,686
1982.....	22,864	2,607	19,498	4,392
1983.....	16,905	2,673	13,468	3,348
1984.....	14,387	2,982	10,727	2,946
1985.....	12,478	2,214	9,612	3,114

	IMPORTS			
	Total	Crude Petroleum	Petroleum Products	Manufactured Products
1980.....	54,781	47,012	5,059	504
1981.....	51,793	43,685	5,322	645
1982.....	32,732	24,577	5,685	589
1983.....	26,494	17,437	5,567	1,052
1984.....	28,062	16,269	7,979	1,405
1985.....	24,062	13,731	6,558	1,435

	BALANCE			
	Total		Manufactured Products	
1980.....	-37,020	---	13,927	---
1981.....	-30,263	---	16,854	---
1982.....	-9,868	---	18,909	---
1983.....	-9,589	---	12,416	---
1984.....	-13,675	---	9,322	---
1985.....	-11,584	---	8,177	---

Note: Manufactured products include SITC 5-9.

Source: U.S. Department of Commerce, Bureau of the Census.

Table 28

World Trade of Selected Countries, 1980-85
(Exports, f.o.b.; Imports, c.i.f.)
(Billions of dollars)

	1980		1982		1983		1984		1985e	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
World Total	1,996.6	2,054.6	1,844.7	1,910.6	1,810.8	1,886.2	1,903.6	1,992.8	1,903.2	2,012.5
Developed Countries	1,257.0	1,417.0	1,155.9	1,247.3	1,151.6	1,234.0	1,224.9	1,341.1	1,265.6	1,369.7
United States 1/	220.8	257.0	212.3	254.9	200.5	269.9	217.9	341.2	213.1	361.6
Canada 2/	65.1	59.2	68.5	55.0	73.5	61.3	86.8	74.0	87.3	76.8
Japan 1/	129.8	140.5	138.9	131.9	146.7	126.4	170.1	136.5	175.6	129.5
EC-10	655.4	722.4	568.8	596.6	566.1	585.1	574.0	593.5	609.4	618.6
Other Developed	185.9	237.9	167.4	208.9	164.8	191.3	176.1	195.9	180.2	183.2
Developing Countries	557.1	445.8	493.0	474.3	451.8	453.1	471.0	447.4	439.9	421.2
Western Hemisphere	104.8	116.8	110.2	100.0	101.4	79.2	107.6	78.2	103.4	76.1
Mexico 1/	15.3	19.4	20.9	15.0	21.0	8.2	23.6	11.3	22.8	14.4
Brazil 3/	20.1	25.0	20.2	21.1	21.9	16.8	27.0	15.2	24.7	13.5
Other Western Hemisphere	69.4	72.4	69.1	63.9	58.5	54.2	57.0	51.7	55.9	48.1
East Asia NICs	76.3	88.0	85.9	95.0	93.3	98.7	112.0	109.9	113.4	104.5
Other Developing	376.0	241.0	296.9	279.3	257.1	275.2	251.4	259.3	223.2	240.6
Centrally Planned Economies	182.4	191.8	195.8	189.1	207.4	199.2	208.4	204.5	197.6	221.6
China 1/	18.3	19.6	21.9	18.9	22.2	21.3	24.9	26.2	25.7	43.0
USSR 2/	76.4	68.5	86.9	77.8	91.3	80.4	91.6	80.6	82.2	80.3
Eastern Europe 2/	80.1	93.1	79.2	82.0	85.7	86.6	83.9	85.7	81.1	86.6

e: estimated.

1/ Domestic and foreign exports; general imports, c.i.f.
2/ Domestic and foreign exports; general imports, f.o.b.
3/ Domestic exports; imports for consumption.

Sources: Republic of China, Inspectorate General of Customs, Statistical Department; United Nations, Statistical Office.

Table 29

Exports of Selected Manufactures (SITC 5-8) by Free Market Economies, 1980-85
(Exports, f.o.b.; Billions of dollars)

	1980	1981	1982	1983	1984	1985p
Free Market Economies, Total	1,047.7	1,031.9	982.5	991.6	1,072.4	NA
Developed Countries 1/	936.6	912.1	865.8	858.9	915.5	927.7
United States 2/	144.7	154.9	140.3	132.9	143.3	145.4
Canada	34.4	38.2	38.6	43.0	52.0	NA
Japan	124.6	146.8	134.2	142.2	164.9	NA
EC-10	503.3	448.9	436.0	425.8	433.3	442.5
Developing Countries	111.1	119.8	116.7	132.3	156.8	NA

p: preliminary.

1/ Including Israel.
2/ Domestic merchandise.

Source: United Nations, Statistical Office.

Table 30

Manufactures Trade of Selected Countries, 1970-85
(Domestic and foreign exports, f.o.b.; General imports, c.i.f.)
(Billions of dollars)

	Canada			Japan			EC-10		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
1970.....	9.8	10.8	-1.0	18.3	5.7	12.6	92.1	71.5	20.6
1971.....	10.5	12.6	-2.1	22.8	5.6	17.2	104.9	79.6	25.3
1972.....	11.8	15.6	-3.8	27.3	7.0	20.3	125.9	95.9	30.0
1973.....	13.8	18.9	-5.1	35.3	11.7	23.6	170.2	132.9	37.3
1974.....	16.6	24.9	-8.3	53.3	14.7	38.6	221.2	164.6	56.6
1975.....	16.8	25.7	-8.9	53.9	11.7	42.2	238.7	172.1	66.6
1976.....	20.8	29.3	-8.5	65.3	13.7	51.6	263.9	200.5	63.4
1977.....	23.2	30.8	-7.6	78.4	15.0	63.4	306.9	230.7	76.2
1978.....	26.4	33.0	-6.6	95.0	20.6	74.4	372.1	288.4	83.7
1979.....	30.7	41.5	-10.8	100.1	28.2	71.9	457.8	370.3	87.5
1980.....	34.6	43.1	-8.5	125.9	31.5	94.4	517.3	428.3	89.0
1981.....	38.8	49.4	-10.6	148.1	32.3	115.8	460.7	361.3	99.4
1982.....	38.8	42.3	-3.5	135.5	31.2	104.3	446.1	352.0	94.1
1983.....	43.2	49.4	-6.2	143.6	33.0	110.6	437.5	350.3	87.2
1984.....	53.0	60.9	-7.9	166.7	38.4	128.3	445.0	360.9	84.1
1985e....	54.4	64.5	-10.1	172.4	38.0	134.4	NA	NA	NA

e: estimated.

Note: Because the EC-10 data are an aggregation of the data from the individual member countries, the EC-10 export data are a mixture of domestic and domestic and foreign merchandise and the EC-10 import data are a mixture of general imports and imports for consumption.
Manufactures include SITC 5-9.
Canadian imports are valued f.o.b.

Source: United Nations, Statistical Office.

Table 31

Volume of Manufactures Trade of Selected Countries, 1979-85
(1983=100)

	Canada		Japan		EC-10	
	Exports	Imports	Exports	Imports	Exports	Imports
1979.....	86.6	108.8	72.8	88.4	95.2	NA
1980.....	84.2	100.0	84.9	86.1	96.2	NA
1981.....	89.0	102.9	94.1	96.9	99.0	NA
1982.....	89.3	85.3	92.1	97.6	97.1	NA
1983.....	100.0	100.0	100.0	100.0	100.0	NA
1984.....	125.9	122.9	116.1	120.2	108.7	NA
1985.....	132.8	131.1	121.6	122.4	108.7	NA

Source: U.S. Department of Commerce;
United Nations, Statistical Office.

Table 32

Average Unit Value Indexes of Manufactures Exports of Selected Countries, 1979-85
(1983=100)

	In U.S. Dollars				In National Currencies			
	United States	Canada	Japan	EC-10 1/	United States	Canada	Japan	EC-10 2/
1979.....	73.3	82.0	95.6	111.1	73.3	77.9	88.2	72.1
1980.....	83.6	94.6	103.2	123.5	83.6	89.6	98.5	79.0
1981.....	93.7	99.4	109.5	107.4	93.7	96.6	101.7	85.6
1982.....	99.0	99.6	102.2	104.9	99.0	99.8	107.2	95.3
1983.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1984.....	100.9	102.3	99.7	93.8	100.9	97.4	99.7	105.8
1985.....	103.0	105.8	98.8	96.3	103.0	95.5	99.2	112.3

1/ Belgium/Luxembourg, Denmark, West Germany, Greece, Ireland, Italy, Netherlands, and the United Kingdom.
2/ EC-10 unit value index adjusted by the average ECU per U.S. dollar exchange rate index.

Source: U.S. Department of Commerce;
United Nations, Statistical Office.

Table 33

Gross National Product of Selected Countries, 1970-85
(1983=100)

	United States		Canada		Japan		EC-10 1/	
	Nominal	Real	Nominal	Real	Nominal	Real	Nominal	Real
1970.....	29.9	73.7	22.0	65.8	26.6	55.8	23.9	74.3
1971.....	32.4	75.8	24.2	70.3	29.3	58.4	26.6	76.8
1972.....	35.7	79.6	27.0	74.6	33.5	63.6	29.5	80.0
1973.....	40.0	83.7	31.7	80.2	40.9	69.2	33.5	84.6
1974.....	43.3	83.3	37.8	83.1	48.7	68.4	37.7	85.9
1975.....	47.0	82.2	42.4	84.1	52.8	71.1	41.9	85.0
1976.....	52.4	86.2	49.2	89.0	59.3	74.5	48.1	89.3
1977.....	58.5	90.3	53.8	90.8	66.1	78.5	53.6	91.4
1978.....	66.1	95.0	59.5	94.0	72.9	82.6	59.7	94.3
1979.....	73.7	97.4	67.7	97.0	79.1	86.9	67.4	97.6
1980.....	80.3	97.2	76.2	98.1	85.6	90.6	76.0	98.5
1981.....	89.7	99.1	87.1	101.3	91.5	94.0	83.3	98.3
1982.....	93.1	96.6	91.8	96.8	96.1	96.9	91.9	98.8
1983.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1984.....	111.0	106.5	108.0	105.0	106.4	105.8	108.0	102.1
1985.....	117.3	108.9	116.4	109.7	113.1	109.9	NA	104.2

Note: Valued in national currencies.

1/ Gross domestic product.

Source: U.S. Department of Commerce, Bureau of Economic Analysis;
OECD, Main Economic Indicators; OECD, National Accounts.

Table 34

Ratios of U.S. Merchandise Trade to GNP
and Goods Production, 1970-85
(In percent)

	Ratio of Exports to		Ratio of Imports to	
	Total GNP	Goods Production	Total GNP	Goods Production
1970.....	4.2	14.2	4.2	14.2
1971.....	3.9	13.7	4.4	15.5
1972.....	4.0	14.0	4.9	17.0
1973.....	5.2	17.3	5.5	18.4
1974.....	6.6	22.6	7.5	25.8
1975.....	6.7	23.7	6.6	23.3
1976.....	6.4	22.3	7.4	25.9
1977.....	6.0	20.7	8.1	27.9
1978.....	6.3	21.9	8.3	28.8
1979.....	7.1	24.9	8.9	31.0
1980.....	7.9	28.3	9.4	33.6
1981.....	7.5	26.1	9.0	31.1
1982.....	6.5	24.2	8.1	29.8
1983.....	5.8	22.2	7.9	30.5
1984.....	5.6	21.3	9.0	34.2
1985.....	5.2	NA	9.1	NA

Source: U.S. Department of Commerce,
Office of Trade and Investment Analysis.

Table 35

Exchange Rates of the U.S. Dollar, 1970-85 1/
(1983=100)

	14 Country Average 2/	Canadian Dollar	Japanese Yen	EC-10 Average 3/
1970.....	100.2	84.7	150.8	86.1
1971.....	97.3	81.9	146.5	84.1
1972.....	90.9	80.3	127.6	78.3
1973.....	85.5	81.1	114.4	71.9
1974.....	86.9	79.4	123.0	73.5
1975.....	87.3	82.5	125.0	71.5
1976.....	89.7	80.0	124.9	80.3
1977.....	89.3	86.3	113.0	78.9
1978.....	82.5	92.6	88.6	70.9
1979.....	81.7	95.1	92.3	65.6
1980.....	81.7	94.9	95.5	63.9
1981.....	88.8	97.3	92.9	78.9
1982.....	97.2	100.1	104.9	90.1
1983.....	100.0	100.0	100.0	100.0
1984.....	106.8	105.1	100.0	113.2
1985.....	110.5	110.8	109.4	117.8

1/ Foreign currency units per U.S. dollar.
2/ Austria, Belgium/Luxembourg, Canada, Denmark, France, West Germany, Italy, Japan, Netherlands, Norway, Sweden, Switzerland, and the United Kingdom. Country weights assigned by the amount of 1983 trade with the United States.
3/ Based on Belgium/Luxembourg, France, West Germany, Italy, Netherlands, and the United Kingdom, with country weights assigned by the amount of 1983 trade with the United States.

Source: U.S. Department of Commerce,
Office of Trade and Investment Analysis.

Table 36

Short Term Interest Rates in Selected Countries, 1980-85
(In percent)

	United States		Canada		Japan		West Germany		France		United Kingdom	
	Nominal	Real	Nominal	Real	Nominal	Real	Nominal	Real	Nominal	Real	Nominal	Real
1980.....	13.36	4.00	12.80	1.52	10.93	6.87	9.54	4.52	12.20	0.02	16.10	-3.06
1981.....	16.38	6.09	17.72	6.44	7.69	4.35	12.11	7.80	15.26	3.07	13.48	1.50
1982.....	12.26	5.51	13.64	3.03	7.12	5.23	8.88	4.29	14.73	1.86	12.02	4.50
1983.....	9.09	5.10	9.30	3.80	6.72	5.87	5.78	2.40	12.63	2.85	9.90	4.57
1984.....	10.23	5.89	11.06	8.03	6.32	4.93	5.99	4.46	11.88	4.45	9.49	5.31
1985.....	8.10	4.65	9.43	6.06	6.70	5.04	5.44	3.45	e10.38	e4.69	11.95	5.51

e: January-September 1985.

Note: Real short term interest rates were calculated by adjusting the nominal rates by the appropriate GNP/GDP implicit price deflators.

Source: International Monetary Fund, International Financial Statistics;
OECD, Main Economic Indicators;
U.S. Department of Commerce, Bureau of Economic Analysis.

Table 37

Manufacturing Unit Labor Costs, Compensation, and Output in Selected Countries, 1970-85 1/
(1983=100)

	United States	Canada	Japan	EC-10 2/
Unit Labor Costs: (in national currencies)				
1970.....	49.1	36.4	52.9	32.3
1975.....	63.5	51.6	97.1	53.5
1980.....	90.4	76.8	99.5	80.7
1982.....	102.9	99.2	102.3	95.6
1983.....	100.0	100.0	100.0	100.0
1984.....	98.8	97.8	96.2	102.1
1985.....	100.5	NA	NA	NA
Unit Labor Costs: (in U.S. dollars)				
1970.....	49.1	42.9	35.1	38.6
1975.....	63.5	62.5	77.8	78.5
1980.....	90.4	81.0	104.8	130.8
1982.....	102.9	99.0	97.6	107.9
1983.....	100.0	100.0	100.0	100.0
1984.....	98.8	93.0	96.1	89.5
1985.....	100.5	NA	NA	NA
Hourly Compensation: (in U.S. dollars)				
1970.....	35.1	30.7	16.0	22.5
1975.....	52.1	52.8	47.9	57.6
1980.....	81.1	76.8	90.3	115.5
1982.....	96.5	93.0	92.6	102.2
1983.....	100.0	100.0	100.0	100.0
1984.....	103.6	96.4	103.0	94.3
1985.....	108.2	NA	NA	NA
Output per Person-Hour:				
1970.....	71.6	71.4	45.5	57.8
1975.....	82.3	84.6	61.6	73.1
1980.....	89.8	94.7	86.2	88.7
1982.....	93.8	93.9	94.9	95.1
1983.....	100.0	100.0	100.0	100.0
1984.....	105.0	103.6	107.0	105.5
1985.....	107.8	NA	NA	NA

1/ Data relate to all employed persons (wage and salary earners, the self-employed, and unpaid family workers) in the United States and Canada, and all employees (wage and salary earners) in the other countries.
2/ Based on 1983 GNP weights and data for Belgium, Denmark, France, West Germany, Italy, Netherlands, and the United Kingdom.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

Table 38

Selected U.S. Employment Indicators, 1980-85

	Employment 1/ (thousands)	Unemployed Workers (thousands)	Unemployment Ratio 2/ (percent)
1980.....	99,303	7,637	7.1
1981.....	100,397	8,273	7.6
1982.....	99,526	10,678	9.7
1983.....	100,834	10,717	9.6
1984.....	105,005	8,539	7.5
1985.....	107,150	8,312	7.2

1/ Persons 16 years of age and older, including resident armed forces.
2/ As a percent of the labor force.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

Table 39

Unemployment Ratios in Selected Countries, 1980-85
(In percent)

	United States 1/	Canada	Japan	France	West Germany	United Kingdom
1980.....	7.1	7.5	2.0	6.4	2.9	6.8
1981.....	7.6	7.5	2.2	7.5	4.1	10.4
1982.....	9.7	11.0	2.4	8.3	5.9	11.8
1983.....	9.6	11.9	2.7	8.5	7.5	12.8
1984.....	7.5	11.3	2.8	10.0	7.8	13.0
1985.....	7.2	NA	NA	NA	NA	NA

1/ Labor force includes resident armed forces.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

Table 40

U.S. Current Account by Major Component, 1977-85
(Billions of dollars)

	1977	1978	1979	1980	1981	1982	1983	1984	1985
Merchandise Trade:									
Exports	$120.8	$142.1	$184.5	$224.3	$237.1	$211.2	$201.7	$219.9	$214.0
Imports	151.9	176.0	212.0	249.7	265.1	247.6	268.9	334.0	338.3
Balance	-31.1	-33.9	-27.5	-25.5	-28.0	-36.4	-67.2	-114.1	-124.3
Business Services:									
Exports	23.4	27.1	31.2	37.0	41.7	41.7	41.8	43.8	45.1
Imports	20.9	23.7	27.2	29.4	32.1	32.6	35.3	41.5	44.9
Balance	+2.5	+3.4	+4.0	+7.6	+9.6	+9.1	+6.4	+2.3	+0.2
International Investment Income:									
Exports (receipts)	32.2	42.2	64.1	72.5	86.4	84.8	78.0	87.6	90.5
Imports (payments)	14.2	21.7	33.0	42.1	52.3	55.3	52.6	68.5	65.8
Balance	+18.0	+20.6	+31.2	+30.4	+34.1	+29.5	+25.4	+19.1	+24.7
Other Goods & Services:									
Exports	7.9	8.6	7.0	8.7	10.5	12.4	13.0	10.7	10.2
Imports	7.2	8.9	10.0	12.2	13.1	14.5	14.7	14.0	13.6
Balance	+0.7	-0.3	-3.0	-3.6	-2.5	-2.0	-1.7	-3.3	-3.4
Total Goods & Services:									
Exports	184.3	220.0	286.8	342.5	375.8	350.1	334.5	362.0	359.7
Imports	194.2	230.3	282.1	333.5	362.6	350.0	371.5	458.0	462.6
Balance	-9.9	10.3	+4.7	+8.9	+13.2	+0.1	-37.0	-95.9	-102.9
Net Unilateral Transfers	-4.6	-5.1	-5.6	-7.1	-6.8	-8.1	-8.9	-11.4	-14.8
Current Account Balance	-14.5	-15.4	-1.0	+1.9	+6.3	-8.1	-46.0	-107.4	-117.7

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Table 41

U.S. Business Services Trade, by Component, 1977-85
(Millions of dollars)

	Total Business Services			Travel			Passenger Fares		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
1977	23,374	20,866	2,508	6,150	7,451	-1,301	1,366	2,748	-1,382
1978	27,103	23,738	3,365	7,183	8,475	-1,292	1,603	2,896	-1,293
1979	31,155	27,157	3,998	8,441	9,413	-972	2,156	3,184	-1,028
1980	37,040	29,428	7,612	10,588	10,397	191	2,591	3,607	-1,016
1981	41,724	32,093	9,631	12,913	11,479	1,434	3,111	4,487	-1,376
1982	41,652	32,594	9,058	12,393	12,394	-1	3,174	4,772	-1,598
1983	41,796	35,397	6,399	11,048	13,977	-2,589	3,037	5,484	-2,447
1984	43,786	41,460	2,326	11,386	16,008	-4,622	3,023	6,508	-3,485
1985	45,078	44,905	173	11,655	17,043	-5,388	2,993	7,385	-4,392

	Shipping & Other Trans.			Proprietary Rights			Other Business Services		
	Exports	Imports	Balance	Exports	Imports	Balance	Exports	Imports	Balance
1977	7,090	7,972	882	4,920	505	4,415	3,848	2,190	1,658
1978	8,136	9,124	-988	5,885	670	5,215	4,296	2,573	1,723
1979	9,971	10,906	-935	6,184	832	5,352	4,403	2,822	1,581
1980	11,618	11,790	-172	7,085	725	6,360	5,158	2,909	2,249
1981	12,560	12,474	86	7,284	651	6,633	5,856	3,002	2,854
1982	12,317	11,710	607	7,133	189	6,944	6,635	3,529	3,106
1983	12,639	12,324	315	7,855	228	7,627	6,857	3,364	3,493
1984	13,799	14,666	-867	8,115	516	7,599	7,463	3,762	3,701
1985	14,342	16,303	-1,961	8,512	207	8,305	7,576	3,967	3,609

Note: Surplus [+], deficit [-].

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Survey of Current Business.

Table 42

U.S. International Investment Income, by Component, 1977-85
(Millions of dollars)

	Total Investment			Direct Investment		
	Receipts	Payments	Balance	Receipts	Payments	Balance
1977	32,179	14,217	17,962	19,673	2,834	16,839
1978	42,245	21,680	20,565	25,458	4,211	21,247
1979	64,132	32,960	31,172	38,183	6,357	31,826
1980	72,506	42,120	30,386	37,146	8,635	28,511
1981	86,411	52,329	34,082	32,549	6,898	25,651
1982	84,768	55,273	29,495	22,600	3,155	19,445
1983	78,023	52,621	25,402	21,271	5,598	15,673
1984	87,609	68,500	19,109	23,078	10,188	12,890
1985	90,456	65,772	24,684	35,292	9,013	26,279

	Other Private Investment			U.S. Government Transactions		
	Receipts	Payments	Balance	Receipts	Payments	Balance
1977	10,881	5,841	5,040	1,625	5,542	-3,917
1978	14,944	8,795	6,149	1,843	8,674	-6,831
1979	23,654	15,481	8,173	2,295	11,122	-8,827
1980	32,798	20,893	11,905	2,562	12,592	-10,030
1981	50,182	28,553	21,629	3,680	16,878	-13,198
1982	58,050	33,833	24,217	4,118	18,285	-14,167
1983	51,920	29,198	22,722	4,832	17,825	-12,993
1984	59,301	38,543	20,758	5,230	19,769	-14,539
1985	49,883	35,453	14,430	5,281	21,306	-16,025

Note: Surplus [+], deficit [-].

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Survey of Current Business.

Table 43

Summary of U.S. International Transactions, 1977-85
(Billions of dollars)

	1977	1978	1979	1980	1981	1982	1983	1984	1985
Current Account Balance	-14.5	-15.4	-1.0	1.9	6.3	-8.1	-46.0	-107.4	-117.7
Net Capital Flows:									
U.S. Assets Abroad	-34.8	-61.1	-64.3	-86.1	-111.0	-119.2	-55.0	-20.4	-38.2
Foreign Assets in U.S.	51.3	64.0	38.8	58.1	83.3	94.4	84.3	97.3	123.1
Net Capital Flows	16.5	2.9	-25.5	-28.0	-27.7	-24.8	29.3	76.9	84.9
SDR Allocations	-	-	1.1	1.2	1.1	-	-	-	-
Statistical Discrepancy	-2.0	12.5	25.4	25.0	20.3	32.8	16.7	30.5	32.7

NOTE: Statistical discrepancy was formerly referred to as Errors & Omissions.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Survey of Current Business

Table 44

U.S. International Investment Position, Selected Years 1970-1985
(Billion of dollars)

	1970	1975	1980	1981	1982	1983	1984	1985 p/
Net Position								
Net Creditor (+) or Debtor (-)------	58.5	74.2	106.0	140.7	147.0	106.2	4.4	-107.4
TOTAL ASSETS (U.S. Investment Abroad)	165.4	295.1	606.9	719.7	839.0	893.8	898.2	952.4
U.S. Government----------	46.6	58.0	90.3	98.5	108.3	113.0	119.6	130.6
Private----------	118.8	237.1	516.6	621.2	730.7	780.8	778.6	821.8
Direct Investment----------	75.5	124.0	215.4	228.3	221.8	227.0	213.0	232.7
Portfolio----------	20.9	34.9	62.7	63.5	75.7	84.3	90.0	114.1
U.S. Claims of Unaffiliated Foreigners Reported by U.S. Non-Banks----------	8.5	18.3	34.7	35.9	28.6	35.1	30.0	28.2
U.S. Claims Reported by U.S. Banks----------	13.8	59.8	203.9	293.5	404.6	434.5	445.6	446.7
TOTAL LIABILITIES (Foreign Investment in U.S.)	106.9	220.9	500.8	579.0	692.0	787.6	893.8	1,059.8
Foreign Official Assets in U.S.----------	26.2	86.9	176.1	180.4	189.2	194.5	199.1	202.3
Private----------	80.8	133.9	324.8	398.6	502.8	593.1	694.7	857.5
Direct Investment----------	13.3	27.7	83.0	108.7	124.7	137.1	164.6	183.0
U.S. Treasury Securities--------	1.2	4.2	16.1	18.5	25.8	33.9	58.3	83.8
Portfolio----------	34.8	45.7	74.1	75.4	93.6	114.7	128.6	207.8
U.S. Liabilities to Unaffiliated Foreigners Reported by U.S. Non-Banks----------	8.8	13.9	30.4	30.6	27.5	26.8	31.0	29.1
U.S. Liabilities Reported by U.S. Banks----------	22.7	42.5	121.1	165.4	231.3	280.6	312.2	353.8

p/ Preliminary.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Table 45

Ratio of Savings to Disposable Personal Income in Selected Countries, 1970-85
(In percent)

	United States	Canada	Japan	France	West Germany	Italy	Nether-lands	United Kingdom
1970.....	8.1	5.3	18.2	16.7	14.7	21.6	14.0	9.6
1971.....	8.5	5.9	17.9	16.8	14.4	20.6	15.0	7.9
1972.....	7.3	7.4	18.2	16.8	15.3	21.4	15.4	9.9
1973.....	9.4	9.1	20.9	17.3	14.7	20.9	16.5	11.4
1974.....	9.3	9.9	23.7	17.4	15.7	19.2	16.6	11.9
1975.....	9.2	10.9	22.5	18.6	16.2	23.2	14.5	12.8
1976.....	7.6	9.2	22.4	16.4	14.5	22.9	14.6	12.1
1977.....	6.6	9.1	21.0	16.6	13.2	22.5	12.0	11.6
1978.....	7.1	10.8	20.6	17.5	13.2	23.8	12.1	12.7
1979.....	6.8	11.3	18.7	16.2	13.8	25.3	11.6	13.5
1980.....	7.1	12.3	19.2	14.9	14.1	22.0	10.9	15.0
1981.....	7.5	14.2	19.7	15.8	14.7	24.0	12.7	13.3
1982.....	6.8	15.2	17.6	15.7	13.8	24.0	14.5	12.8
1983.....	5.5	13.3	17.3	14.9	12.5	22.8	13.0	11.6
1984.....	6.5	13.2	16.0	13.5	13.0	23.0	14.0	12.2
1985.....	4.6	12.1	NA	12.3	12.7	NA	NA	11.7

Source: U.S. Department of Commerce, Office of Trade and Investment Analysis.

Due to budgetary restraints, the U.S. Trade Performance and Outlook may not be issued in 1987. The statistical data will be available, however, in other publications.

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